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Artesia NM OIL CONSERVATION ARTESIA DISTRICT

APR 17 2017

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Form 3160-3
(March 2012)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

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

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.	NM - 12557
6. If Indian, Allotee or Tribe Name	N/A
7. If Unit or CA Agreement, Name and No.	N/A
8. Lease Name and Well No.	DUNCAN FEDERAL #12
9. API Well No.	30-005-64277
10. Field and Pool, or Exploratory	Wolfe Lake, San Andres, South
11. Sec., T. R. M. or Blk. and Survey or Area	Sec. 18, T-9S, R-28E
12. County or Parish	CHAVES
13. State	NM

1a. Type of work: ☐ DRILL ☑ REENTER

1b. Type of Well: ☑ Oil Well ☐ Gas Well ☐ Other ☐ Single Zone ☐ Multiple Zone

2. Name of Operator: JALAPENO CORPORATION

3a. Address: PO BOX 1608, ALBUQUERQUE, NM 87103

3b. Phone No. *(include area code)*: 505-242-2050

4. Location of Well *(Report location clearly and in accordance with any State requirements.*)*

At surface: 2145' FNL & 694; FWL lot 2

At proposed prod. zone:

14. Distance in miles and direction from nearest town or post office*

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)	694'	16. No. of acres in lease	17. Spacing Unit dedicated to this well: E
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.	400' to P&A well Duncan Fed #4Y	19. Proposed Depth: ~~2800'~~ 2400'	20. BLM/BIA Bond No. on file: NMB000378
21. Elevations (Show whether DF, KDB, RT, GL, etc.): 3872' GL		22. Approximate date work will start*: ASAP	23. Estimated duration: 90 days

24. Attachments

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

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

25. Signature: H Emmons Yates	Name *(Printed/Typed)*: H. EMMONS YATES, III	Date: Jan 18, 2017

Title: VICE PRESIDENT

Approved by *(Signature)*: Robert Sanchez	Name *(Printed/Typed)*: Robert J. Sanchez	Date: 04/11/17
Title: Assistant Field Manager, Lands And Minerals	Office: ROSWELL FIELD OFFICE	

Application approval 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.
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.

(Continued on page 2)

*(Instructions on page 2)

Witness CIT

APPROVED FOR 2 YEARS

Roswell Controlled Water Basin

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED

SEE ATTACHED FOR
CONDITIONS OF APPROVAL

RWP 4.18.17

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 Road, Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170
DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Form C-102
Revised August 1, 2011
Submit one copy to appropriate District Office

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
	65075	Wolf Lake, San Andres, South

Property Code	Property Name	Well Number
	DUNCAN FEDERAL	12

OGRID No.	Operator Name	Elevation
26307	JALAPENO CORPORATION	3872'

Surface Location

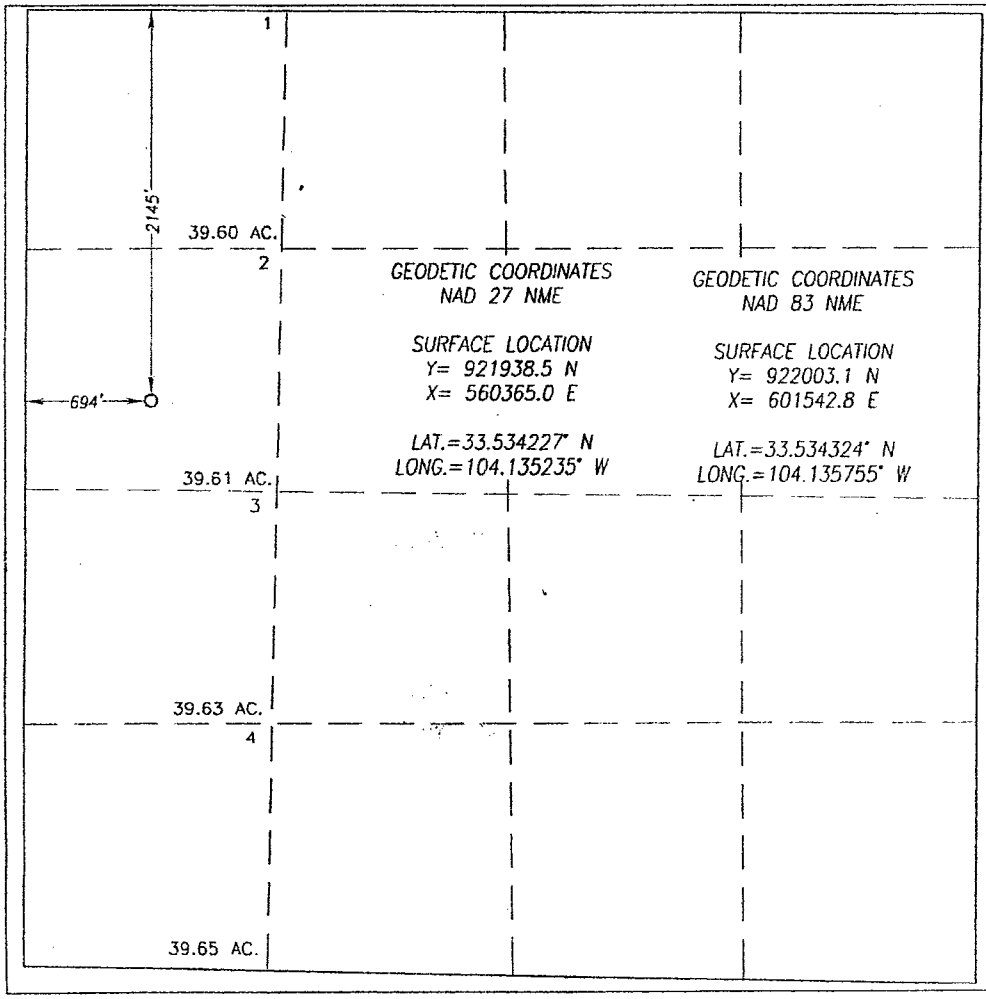
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
2	18	9-S	28-E		2145	NORTH	694	WEST	CHAVES

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	Joint or Infill	Consolidation Code	Order No.
40			

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



OPERATOR CERTIFICATION

I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Signature Date: Nov 15 2014

H. Emmons Yates, III
Printed Name

eyates@jalapenocorp.com
E-mail Address

SURVEYOR CERTIFICATION

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.

AUGUST 28, 2014
Date of Survey

Signature & Seal of Professional Surveyor:

RONALD J. EIDSON NEW MEXICO 3239

11/10/2014

Certificate Number	Gary G. Eidson	12641
	Ronald J. Eidson	3239

L.S.L. REL. W.O.: 14.11.0895 JWSC W.O.: 14.13.1241

Jalapeño Corporation

DUNCAN FEDERAL # 12

2145 FNL & 694 FWL
SECTION 18, T. 9-S, R. 28-E
CHAVES COUNTY, NEW MEXICO

APPLICATION FOR PERMIT TO DRILL

1. **PLATS**
   Attached is an original Plat signed by H. Emmons Yates III, Vice President of Jalapeno Corporation and by Donald Eidson of John West Surveying Company.

2. **SURFACE USE PLAN OF OPERATIONS**
   (See pages 2-7)

3. **OPERATING CERTIFICATION**
   (See page 8)

4. **DRILLING PLAN**
   (See page 9)

5. **DRILLING AND OPERATIONS PROGRAM**
   (See pages 9-11)

6. **BOND**
   Jalapeno Corporation's Bond is NMB000378.

7. **HYDROGEN SULFIDE DRILLING OPERATIONS PLAN**
   (See page 11)

8. **ARCHAEOLOGIC SURVEY**
   Dorothy Griffth of Archaeological Survey Consultants will hand deliver a copy of the Archaeological Survey to BLM office in Roswell, New Mexico

9. **EXHIBITS**
   Exhibit #1 – Annular BOP Diagram
   Exhibit #2 – Well Site Diagram
   Exhibit #3 – Vicinity Map
   Exhibit #4 – Directions to Location Map
   Exhibit #5 – Location Verification Map
   Exhibit #6 – Reclamation Diagram
   Exhibit #7 – 1 Mile Radius Map of Location of Existing Wells
   Exhibit #8 – Production Diagram
   Exhibit #9 – Rig Inventory

Jalapeño Corporation

DUNCAN FEDERAL # 12

2145 FNL & 694 FWL
SECTION 18, T. 9-S, R. 28-E
CHAVES COUNTY, NEW MEXICO

SURFACE USE PLAN OF OPERATIONS

This plan is submitted with the Application for Permit to Reenter and drill the above-described well. The purpose of the Plan is to describe the location of the existing well and operation our reentry 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 #3 and #5 are maps which show the location of the now existing road and well.

   B. Direction to Location:
   From the intersection of State Highway #380 and County Road #51 (Ponderosa Road) go north on Ponderosa Rd. for approximately 11 miles. Turn right at a pipeline Rd./Lease Rd. and go southeast approximately 4 miles. Turn right and go southwest approximately 1 mile; turn left and go southeast approximately 0.1 miles. Turn left and go approximately 0.45 miles; turn right and go south approximately 0.2 miles, then follow access road southwest 1722' to the southeast corner of this location.

2. **PLANNED ACCESS ROAD**
   A. Surfacing Material: The well site and access road are already built and ready to use. No additional caliche or surface material will be needed.

   B. Improvement and/or maintenance of existing road: We will improve or maintain existing roads in a condition the same as or better than before operations begin. We will repair pot holes, clear ditches, repair the crown, etc. All existing structures on the entire access route such as cattle guards, other range improvement projects, culverts, etc. will be properly repaired or replaced if they are damage or have deteriorated beyond practical use. We will prevent and abate fugitive dust as needed, whether created by vehicular traffic, equipment operations, or wind events. Before application of surfactants, binding agents, or other dust suppression chemicals on roadways we will obtain BLM written approval.

   C. Access Road/Road Width: The pre-existing road is approximately 12 feet wide and 1722 feet in length. (See Exhibit #5)

   D. Maximum Grade: 1 percent.

   E. Crown Design: The road crown shall have a grade of approximately 2%

   F. Turnouts: It is not anticipated that turnouts will be needed.

G. Culverts: No Culverts are anticipated.

H. Drainage/Ditch Design: The ditch grade will be no less than 0.5 percent to provide positive drainage and to avoid siltation.

I. Erosion Control: None required.

J. Cuts & Fills: No Cuts or Fills are anticipated.

K. Gates and Cattle Guards: If the well is reentered 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 and at its SE exit (see Exhibit #2.) We will use 14 gauge high tensile steel cattle guard that is 7'5" x 8". The fences will be 4ft. wire fences with metal "T" posts spaced 15 feet apart with metal brace posts composed of 2 3/8 tubing.

L. Right of Way: No additional off-lease right-of-way will be necessary.

3. LOCATION OF EXISTING WELLS

A. There are 23 wells within a mile radius of the proposed site (see Exhibit #7).

1. The following 15 wells operated by Jalapeno Corporation:

Duncan Federal #2 (P & A)	Aciete Negra #4 (P&A)
Duncan Federal #3 (producing)	Duncan Federal #5 (P & A)
Duncan Federal #11 (P & A)	Duncan Federal #10 (P & A)
Emmons State #1 (producing)	Louise Yates State #1 (P & A)
Emmons State #2 (producing)	Louise Yates State #2 (P & A)
Paisano Federal #1 (P & A)	Louise Yates State #3 (P & A)
Scrounger State #1 (P & A)	Scrounger State #2 (P & A)
Louise Yates State #4 (SWD)	

2. The following 6 wells operated by Cibola Energy Corporation:

Agua Negra #2 (P & A)	Duncan Federal #4 (P & A)
Aciete Negra #3 (P & A)	Duncan Federal #4Y (P & A)
Cibola 16-J (P & A)	Sardine Can #1 (P & A)

3. The following 2 wells operated by Yates Petroleum Corporation:

Joya AYJ State Com #1 (P& A)	Lobo AXU Federal #1Q (P& A)

B. If the reentered well is a producer, a pump jack and a flow line will be located on the well pad and no additional surface damage will be necessary.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

A. The drilling facility would be located on the Duncan #12 well pad (see Exhibit#2). If the well is successful, we will pipe the oil and water through a flow line to the Duncan #2-#3 tank battery (see Exhibit#2 & 8).

B. For a description of drilling equipment, see Exhibit #9.

C. We will be reentering and drilling the Duncan Federal #12 using a cable tool rig.

D. We will only be reentering the Duncan#12 with a 7 ⅞" bit to drill the production hole because the surface hole has already been drilled.

E. We are reentering the Duncan#12 in order to drill a San Andres oil test to an approximate depth of 2300 feet using a cable tool rig and little if any gas is expected to be encountered. This method of drilling does not involve a mud, water, gas or air circulation system. We simply drill using a steel drill bit and after we have drilled for awhile, we run in the borehole with a bailer to bail out the drill cuttings. We then place the bailer into a very small collection tank on the rig floor that has a drill cutting flow line that feeds into the pit. The Duncan Federal #12 is itself an infill well that is located on a Federal lease that contains three other San Andres oil wells. Two of these three San Andres oil wells, Duncan Federal #3 and #5, were drilled with a cable tool rig without a flair system. However, in order to comply with onshore order #2 we will install a 100ft blooie line leading into a berm on the northwest corner of the drilling pad. This will have an ignition system which will allow us to flair any gas we may encounter.

F. The rig will be equipped with gas sensing equipment and an alarm to detect any escaping gas. A 210 bbl tank full of water will be on location and if gas becomes a problem, the hole will be flooded with water.

G. The drilling rig will run on diesel fuel and if the well is successful, we will move a pump jack on location with a motor. The motor will run on either casing head gas or propane.

H. The approved and already built pit is already on location. We have attached its C-144 form in order to show you its dimensions.

5. LOCATION AND TYPE OF WATER SUPPLY

A. We plan to reenter and drill the well with a cable tool rig.

B. We are going to use a 210 bbls steel water tank on location. The water will be obtained from Roswell city water and will be hauled by Big Buck Services.

6. CONSTRUCTION MATERIALS

A. No construction material will be needed because the access road and well pad already exist and are in good shape.

7. METHODS OF HANDLING WASTE MATERIALS:

A. All trash, junk and other material shall be contained in trash cages or trash bins to prevent scattering. When job is completed, all contents shall be removed and disposed of in an approved landfill.

B. Current laws and regulation pertaining to the disposal of human waste will be complied with.

C. Remaining drilling fluids shall be hauled off by transports to a state approved disposal site. Water produced during completion shall be put in storage tanks and disposed of in a state approved disposal (see below). Oil and condensate produced shall be put in a storage tank and sold.

Disposal Facility Name: Gandy Marley Landfarm
Disposal Facility Permit Number: NM 711-01-0019

9. WELLSITE LAYOUT

A. Exhibit #2 shows relative locations and dimensions of the well pad layout are 200 feet by 200 feet. We will have a perimeter fence surrounding the well pad if we have a successful producer.

10. PLANS FOR RECLAMATION OF THE SURFACE

A. After completion of the reentry drilling and/or completion of operations, all equipment and other materials not needed for further operations will be removed and surface reclamation will be done in accordance with BLM's rules and regulations

B. If the well is found non-commercial, the caliche shall be removed from the pad and transported to the original caliche pit or used for other drilling locations or roads.

C. We try to leave as small a footprint as possible that is why our well pads are small to begin with. We will reclaim the pit area but the rest of the location is needed to operate the well safety. Top Soil will be stockpiled on the eastern side of the well pad. If the hole is dry or after production ceases the original topsoil will be returned to the pad and contoured, as close as possible, to the original topography and the site will be seeded with the seed mixture required by the BLM. See Exhibit #6.

D. The only interim reclamation we plan to do is to reclaim the pit in accordance with OCD Form C144 (see 10.E below and the attached NMOCD Form C144). We will not perform any further interim reclamation because our well pads are very small to begin with and if we made them any smaller it would endanger our ability to safely operate the well as an oil producer. Once the well is no longer economic or is plugged we would spread the stockpiled material on the east side of the well and spread the required seed content that is given to us by the BLM.

E. Reclamation Plan for Pit

1. Once we have closed a pit we shall reclaim the pit location and all areas associated with the pit to a safe and stable condition that blends with the surrounding undisturbed area. We shall substantially restore the impacted surface area to the condition that existed prior to oil operations by placement of the soil cover as provided in soil cover designs below, recontour the location and associated areas to a contour that approximates the original contour and blends with the surrounding topography and re-vegetate according to re-vegetation below.

2. Areas reasonably needed for production operations or for subsequent drilling operations shall be compacted, covered, paved, or otherwise stabilized and maintained in such a way as to minimize dust and erosion to the extent practicable.

3. All other areas disturbed by the closure of pits shall be reclaimed as early and as nearly as practicable to their original condition or their final land use and shall be maintained to control dust and minimize erosion to the extent practicable.

4. The soil cover for burial in-place pit will consist of a minimum of four feet of non-waste containing uncontaminated earthen material with chloride concentrations less than 600 mg/kg as analyzed by EPA Method 300.0. The soil cover shall include either the background thickness of topsoil or one foot of suitable material to establish vegetation at the site, whichever is greater. The operator shall construct the soil cover to the site's existing grade and prevent pooling of water and erosion of the cover material.

5. Topsoil's and subsoil's will be replaced to their original relative positions and contoured so as to achieve erosion control, long-term stability and preservation of surface water flow patterns.

6. The disturbed area then shall be reseeded in the first favorable growing season following closure of a pit.

7. We will accomplish seeding by drilling on the contour whenever practical or by other division-approved methods. We shall obtain a uniform vegetative that reflects a life-form ratio of plus or minus fifty percent (50%) of pre-disturbance levels and a total percent plant cover of at least seventy percent (70%) of pre-disturbance levels, excluding noxious weeds and maintain that cover through two successive growing seasons. During the two growing seasons that prove viability, there shall be no artificial irrigation of the vegetation.

8. We shall notify the division when location has been seeded or planted and when this area has successfully achieved re-vegetation. We shall repeat seeding or planting until it successfully achieves the required vegetative cover.

11. SURFACE OWNERSHIP:

A. The surface owner is the Bureau of Land Management (BLM).

12. OTHER INFORMATION

A. Topography: The land surface is level except for some sand dunes.

B. Soil: Soil is mostly sandy with some calcareous lime and gravel.

C. Flora and Fauna: Vegetative cover consists of small mesquite and grease wood and some grass. Wildlife in the general area is that typical of semi-arid desert land and includes coyotes, rabbits, rodents, reptiles, dove and quail.

D. Ponds & Streams: There are no ponds of streams within a mile radius of the well site.

E. Residences and other Structures: There are no residences or other structure within the immediate area.

F. Land Use: The immediate pad location is unused at this time.

13. **OPERATOR'S REPRESENTATIVE**

Representative responsible for assuring compliance with the approved surface use plan is:

Address:

H. Emmons Yates, III, Vice President
Jalapeno Corporation
P.O. Box 1668
Albuquerque, NM 87103

Contact Information:

Albuquerque Office Phone: (505) 242-2050

Emmons Yates, Vice President
Cell Phone: (505) 980-0703

Harvey E. Yates, Jr., President
Cell Phone: (505) 980-7761

OPERATING CERTIFICATION

I hereby certify that I, or someone under my direct supervision, have inspected the drill site and access route proposed herein; that I am familiar with the conditions which currently exist; that I have full knowledge of state and Federal laws applicable to this operation; that the statements made in this APD package are, to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed in conformity with this APD package and the terms and conditions under which it is approved. I also certify that I, or the company I represent, am responsible for the operations conducted under this application. These statements are subject to the provisions of 18 U.S.C. 1001 for the filing of false statements.

Executed this 18th day of January 19, 2017.

Harvey Emmons Yates, III, Vice President
Jalapeno Corporation

Jalapeño Corporation

DUNCAN FEDERAL # 12

2145 FNL & 694 FWL
SECTION 18, T. 9-S, R. 28-E
CHAVES COUNTY, NEW MEXICO

DRILLING PLAN

This well will be reentered and drilled with a Cable Tool Rig to a depth of approximately 2300 feet. 8 5/8" surface casing has already been run and cemented to a depth of 610 feet If the well is completed, 5 1/2" inch casing will be run and cemented.

The Duncan#12 has already cemented the fresh water zone and the top of the Yates formation behind casing. We anticipate encountering the top of the San Andres at 1600 feet from surface and that the San Andres could have oil shows. If we encounter hydrocarbons in sufficient quantity, we will run 5½" casing and cement it to 500 feet above the estimated top perforation. Treatment of the producing zone(s) will be determined after samples and logs are examined, but likely the zones will be given an acid wash treatment.

DRILLING AND OPERATIONS PROGRAM

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

1. **GEOLOGICAL NAME OF THE SURFACE FORMATION:**
   Quaternary fill

2. **ESTIMATED TOPS OF GEOLOGIC MARKERS:**

Yates	495'
Queen	1140'
Grayburg	1238'
San Andres	1600'
Slaughter	2191'

3. **ESTIMATED DEPTH AT WHICH WATER, OIL OR GAS ARE EXPECTED:**

Water	308' approx.
Oil & Gas-Yates	495'
Queen	1140'
San Andres	2275' (P1 zone of Slaughter)

4. **PROPOSED CASING & CEMENT PROGRAMS:**
   This well will be drilled using a Cable Tool Rig. The production casing will be cemented from TD to only 400 or 500 feet above the top of the P1. The reason is that production likely will come from fractures. Our experience is that if the cement is run to surface its weight pushes the cement into the productive fractures greatly diminishing the likelihood of a successful well.
   (See information related to production casing and it's cementing below).

Jalapeño Corporation

DUNCAN FEDERAL # 12

2145 FNL & 694 FWL
SECTION 18, T. 9-S, R. 28-E
CHAVES COUNTY, NEW MEXICO

Existing and Proposed Casing and Cement Program

	Hole Size	Casing Size	Casing weight/foot	Setting Depth	Grade	Sacks of Cement	Estimated TOC
Existing Surface	**12 1/4**	**8 5/8**	**24#**	**610'**	**J-55**	**250 SX**	**Surface**
Proposed production	**7 7/8**	**5 1/2**	**15.5#**	**2,400'**	**J-55**	**275 SX**	~~1,900'~~ Cement to Surface

See COA

5. **TYPES AND CHARACTERISTICS OF THE PROPOSED MUD SYSTEM:**

During the production drilling, the hole will be drilled with fresh water and drilling mud. If the hole starts sluffing, approximately one gallon of Polymer will be added. Loss circulation material and starch will be on location in case we encounter a loss circulation zone. Fresh water for drilling and completion will be hauled to location over road shown from a private commercial source.

6. **MINIMUM SPECIFICATIONS FOR PRESSURE CONTROL:**

All BOP and related equipment will comply with well control requirements as described in Onshore Order No. 2. Minimum working pressure of the blowout preventer and related equipment (BOPE) will be 2000 psi. The BOP will be installed and operational before drilling below the 8 5/8" surface casing and will be tested as described in Onshore Order No. 2. (See Exhibit #1).

The results of the test will be reported to the appropriate BLM office. Testing fluid will be water. No drilling mud will be used in testing. Testing will be done in a safe workman like manner and hard line connections will be required. If this BOP fails to test satisfactorily, it will be repaired or replaced.

7. **AUXILIARY FACILITIES:**
None Required.

8. **TESTING, LOGGING AND CORING PROGRAM:**

The electric logging program will consist of Gamma Ray, CNL Densilog, and Dual Later log. Gamma Ray will be run from TD to the surface casing. Other logs will be run from TD to the top of the fluid in the hole.

We plan no DST's.

9. **ABNORMAL CONDITIONS, PRESSURES, TEMPERATURES AND POTENTIAL HAZARDS:**
No abnormal pressures are anticipated.

10. ANTICIPATED STARTING DATE:

We anticipate starting drilling as soon as we obtain approval of the reentry of the Duncan#12.

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

In accordance with the rules and procedures detailed in OCD Rule 118, it has been determined that the H2S level present at the above-mentioned location likely will not exceed 100 ppm, 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 drill crew and pumper shall be issued gas masks which are appropriate for escape in the event of discharge.
- The 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 borehole. 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.
- We will have a 100 ft flare line in case we need to direct any H2S gas we encounter.

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 closest public road is approximately 4 miles west (Ponderosa Road) of the location

Duncan Federal #12
2145' FNL & 694' FWL
Section 18, T9S-R28E
Chaves County, New Mexico

Addition to Drilling Plan for the Duncan Federal #12 Reentry application:

Jalapeno Corporation is requesting a variance for ONSHORE ORDER#2 from the BLM regarding our BOP plan for the Duncan Federal#12 reentry.

Jalapeno Corporation is drilling a 2300' vertical hole in an existing and well explored SA oil field that does not have high pressure zones. Because we do not have high pressure zones in this field and because we believe it gives us the best chance to identify productive zones, Jalapeno Corporation is using a cable tool drilling rig instead of a normal rotary drilling rig. This drilling technique does not have a borehole that is filled with your typical mud like you would see with rotary but instead has a few feet of 14# mud at the bottom of the hole that is used as a lubricant for our drill bit and to suspend cuttings which are periodically bailed out of the hole. This technique means that we are drilling underbalanced but it allows us to directly view the rock that we are drilling and to identify hydrocarbon bearing zones if they are encountered.

Because the cable tool rig uses a cable drill line instead of a string of drill pipe like a rotary rig, we use a hydraulic annular BOP that allows us to squeeze rubber against the cable tool drill line or the drill tools and hold 2000#'s of pressure should we encounter it. This BOP system has been used many times successfully. Prior to drilling our last well on a federal lease, The Duncan Federal#11, we met with Mr. Glass out of the Roswell BLM office to explain how this BOP system works with our cable tool rig. After these meetings we had our APD's approved for the Duncan Federal#11 and the original Duncan Federal#12 drilling program. We additionally point out that hundreds of cable tool holes have been drilled on federal leases over the years using the same system we now propose.

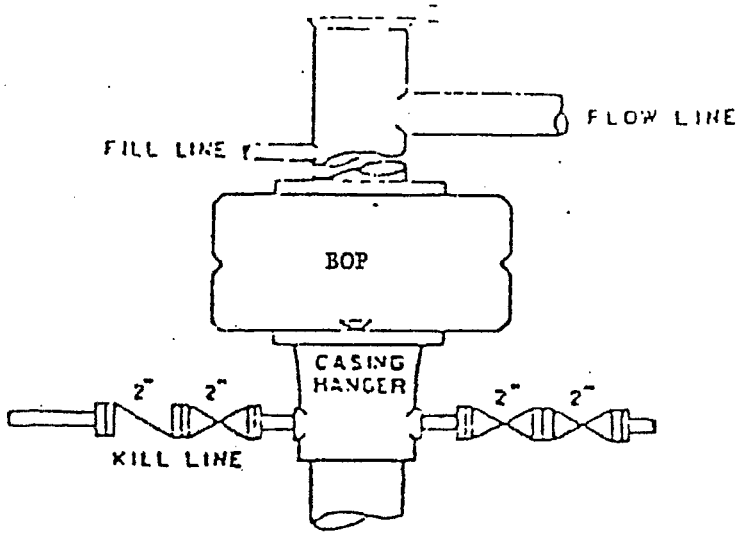
If we are successful and encounter an economic oil producing well, Jalapeno will run our 15.5# J55 casing into the hole. We will then cement the production casing to 500' above where our top perforation will be, approx from 2300'- 1700' from surface. We intend to use class C cement with a 1.68 yield for the cementing of this production string.

Should the BLM wish to meet and go over any of the information provided, we would be happy to do so.

Sincerely,

H. Emmons Yates III

EXHIBIT #1
DUNCAN FEDERAL #12



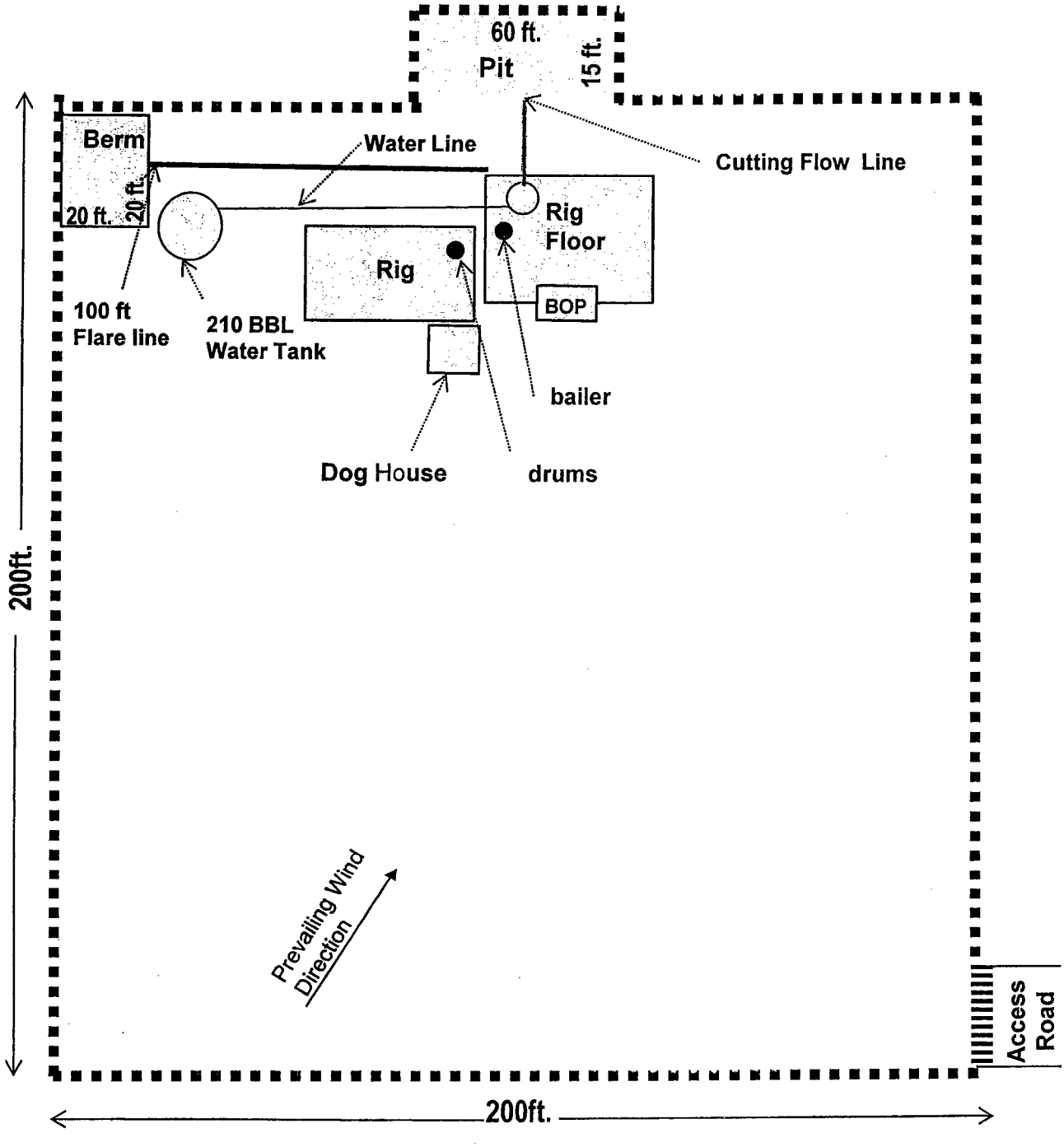
ANNULAR BOP STACK 8" Annular

PRESSURE 2000#

Exhibit #2

JALAPENO CORPORATION

DUNCAN FEDERAL #12



*NOT TO SCALE

LEGEND

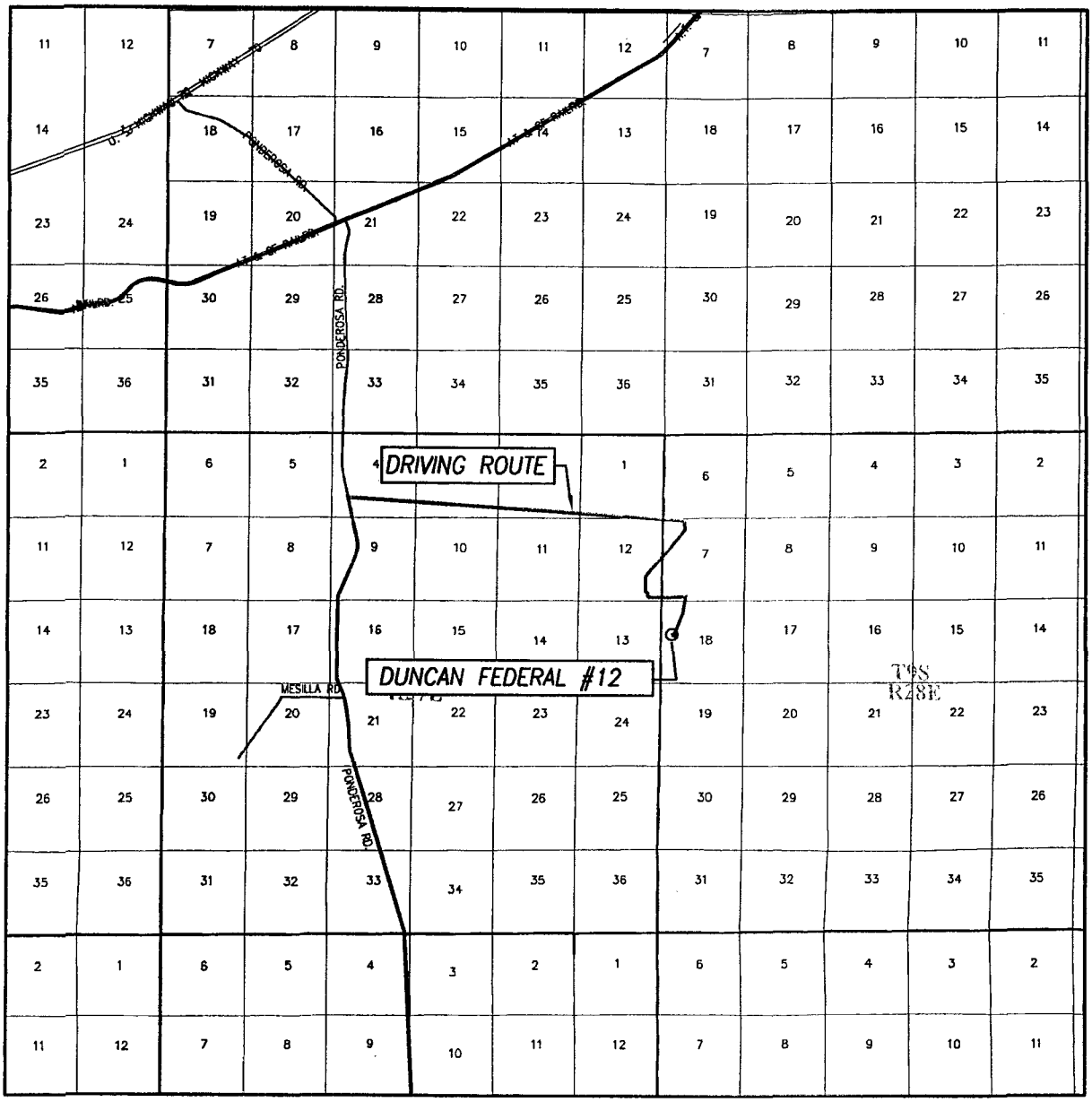
Fence

Cattle guard

SEC. 18 TWP. 09S RGE. 28E
COUNTY CHAVES STATE NEW MEXICO
DESCRIPTION 2145 FNL & 694 FWL

EXHIBIT #3

VICINITY MAP



SCALE: 1" = 2 MILES

DRIVING ROUTE: SEE LOCATION VERIFICATION MAP

SEC. 18 TWP. 9-S RGE. 28-E

SURVEY N.M.P.M.

COUNTY CHAVES STATE NEW MEXICO

DESCRIPTION 2145' FNL & 694' FWL

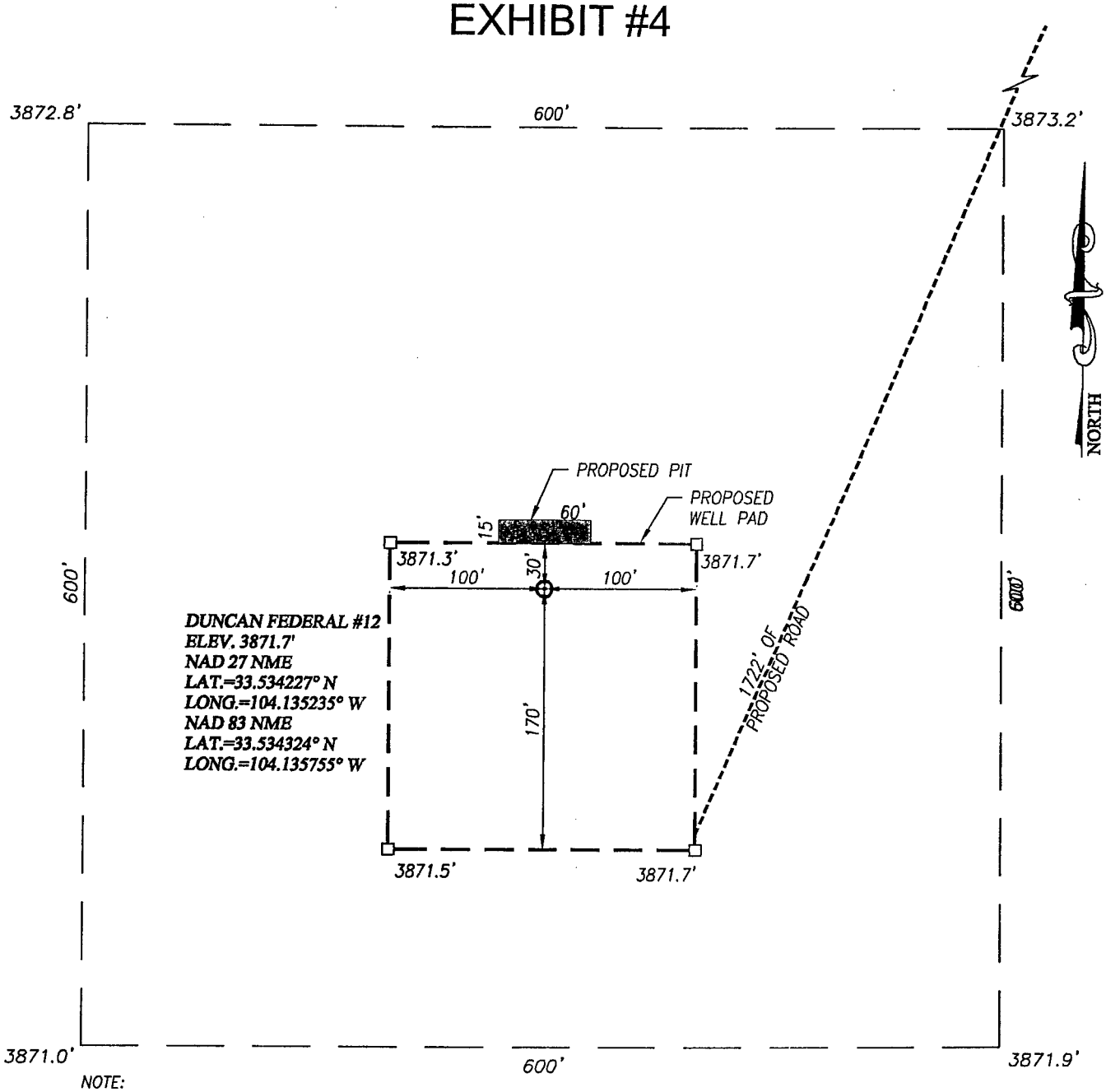
ELEVATION 3872'

OPERATOR JALAPENO CORPORATION

LEASE DUNCAN FEDERAL

PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO HOBBS, N.M. 88240
(575) 393-3117 www.jwsc.biz
TBPLS# 10021000

EXHIBIT #4



NOTE:
1) SEE "LOCATION VERIFICATION MAP" FOR PROPOSED ROAD LOCATION.

DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF U.S. HWY 380 AND PONDEROSA RD. GO NORTH ON PONDEROSA RD. FOR APPROX. 11 MILES TURN RIGHT AT A PIPELINE RD./LEASE RD. AND GO SOUTHEAST APPROX. 4.0 MILES, TURN RIGHT AND GO SOUTHWEST APPROX. 1.0 MILE, TURN LEFT AND GO SOUTHEAST APPROX. 0.1 MILE, TURN LEFT AND GO EAST APPROX. 0.45 MILES TURN RIGHT AND GO SOUTH APPROX. 0.2 MILES, THEN FOLLOW RD. SURVEY SOUTHWEST 1722' TO THE SOUTHEAST CORNER OF THIS LOCATION.

100 0 100 200 Feet

Scale: 1"=100'

JALAPENO CORPORATION

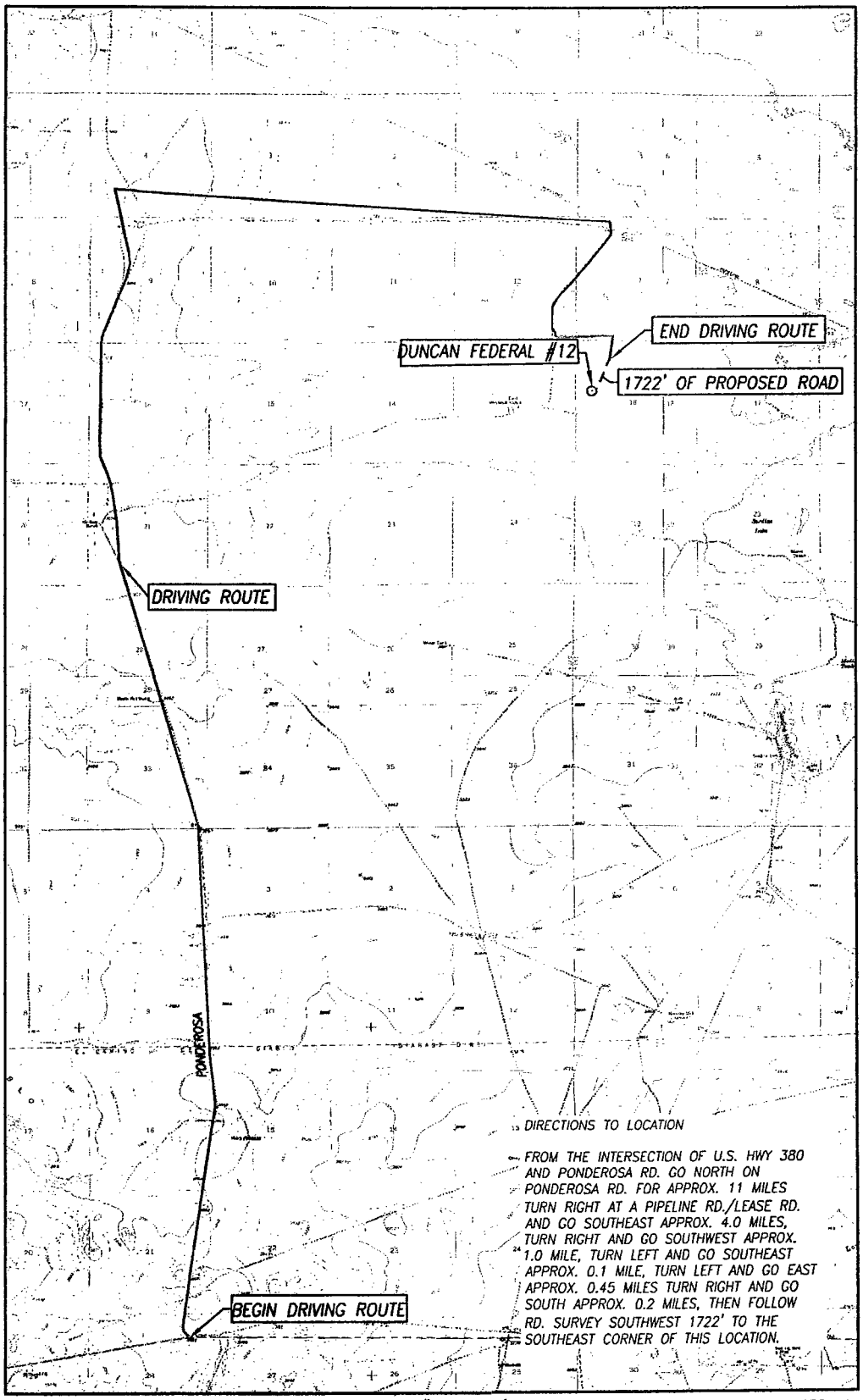
DUNCAN FEDERAL #12 WELL
LOCATED 2145 FEET FROM THE NORTH LINE AND 694 FEET FROM THE WEST LINE OF SECTION 18, TOWNSHIP 9 SOUTH, RANGE 28 EAST, N.M.P.M., CHAVES COUNTY, NEW MEXICO

Survey Date: 8/28/14	CAD Date: 11/10/14	Drawn By: LSL
W.O. No.: 14131241	Rev: .	Rel. W.O.:14110895	Sheet 1 of 1

PROVIDING SURVEYING SERVICES SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO HOBBS, N.M. 88240
(575) 393-3117 www.jwsc.biz
TBPLS# 10021000

EXHIBIT #5

LOCATION VERIFICATION MAP



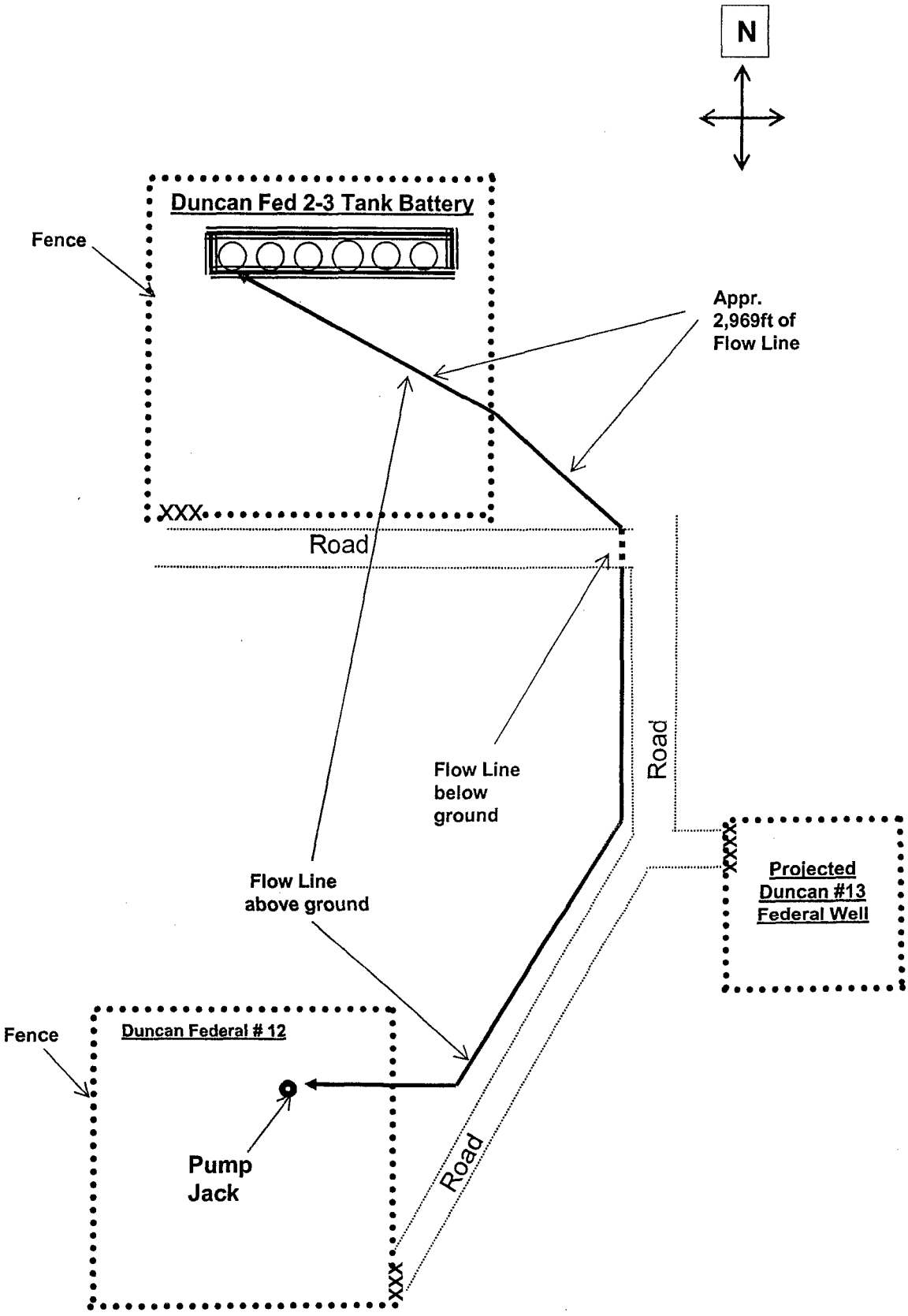
SEC. 18 TWP. 9-S RGE. 28-E
COUNTY CHAVES STATE NEW MEXICO
DESCRIPTION 2145' FNL & 694' FWL
ELEVATION 3872'
OPERATOR JALAPENO CORPORATION
LEASE DUNCAN FEDERAL
U.S.G.S. TOPOGRAPHIC MAP
CAMPBELL, N.M. SURVEY N.M.P.M.

SCALE: 1" = 5280'

CONTOUR INTERVAL:
CAMPBELL, N.M. – 10'

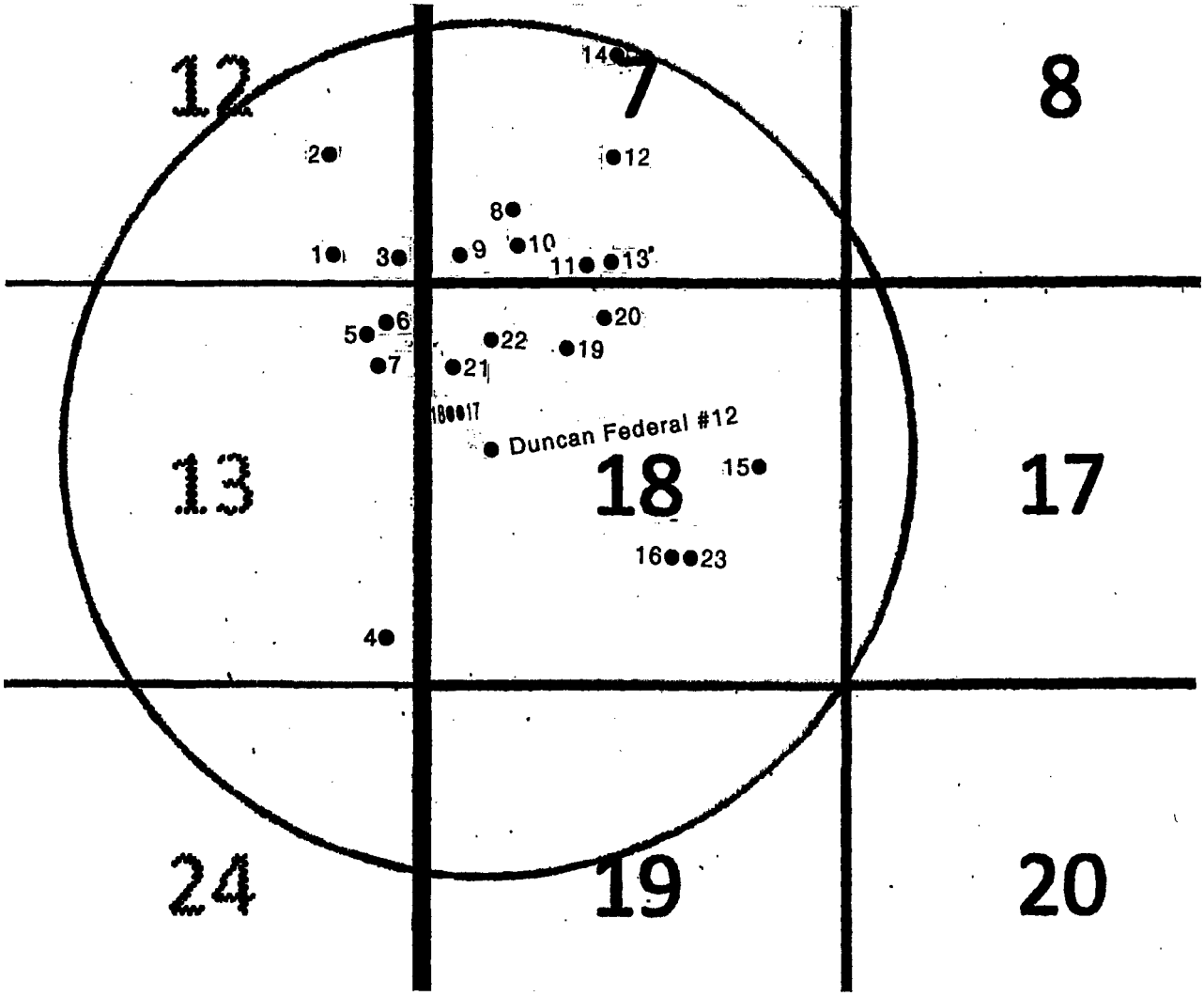
PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO HOBBS, N.M. 88240
(575) 393-3117 www.jwsc.biz
TBPLS# 10021000

Revised Exhibit #6



NOT TO SCALE

EXHIBIT #7



WELLS WITH IN A ONE MILE RADIUS OF DUNCAN FEDERAL #12

Sec. 12, T-9S, R-27E

1 Aciete Negra #4
2 Lobo AXU Federal #1Q
3 Paisano Federal #1

Sec. 13 T-9S, R-27E

4 Aciete Negra #3
5 Joya AYJ State Com #1
6 Scrounger #1
7 Scrounger #2

Sec. 7, T-9S, R-28E

8 Duncan Federal #2
9 Duncan Federal #3
10 Duncan Federal #11
11 Louise Yates State #1
12 Louise Yates State #2
13 Louise Yates State #3
14 Louise Yates State #4

Sec. 18, T-9S, R-28E

15 Agua Negra #2
16 Cibola 16-J
17 Duncan Federal #4
18 Duncan Federal #4Y
19 Duncan Federal #5
20 Duncan Federal #10
21 Emmons State #1
22 Emmons State #2
23 Sardine Can #1

Exhibit #8

ALREADY IN PLACE AND APPROVED

Duncan Federal #2 & 3 Tank Battery

Lease No.: NM 12557

330' FSL & 990' FWL; Sec. 7, T9S, R28E

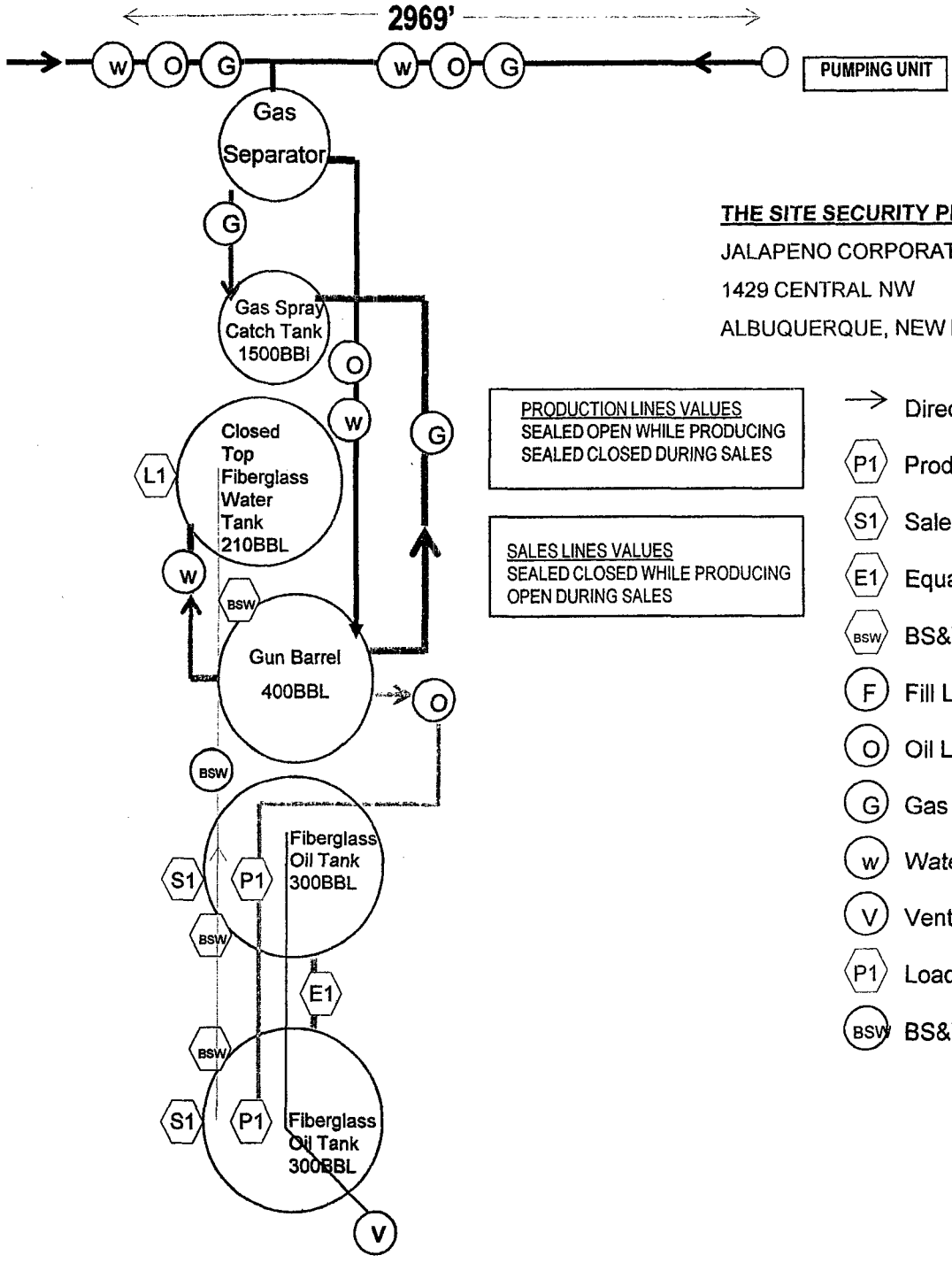
Chaves, New Mexico

← North

Duncan Federal #12

Sec. 18, T9S, R28E

2145' FNL & 694" FWL



THE SITE SECURITY PLAN IS LOCATED AT:

JALAPENO CORPORATION

1429 CENTRAL NW

ALBUQUERQUE, NEW MEXICO 87104

PRODUCTION LINES VALUES
SEALED OPEN WHILE PRODUCING
SEALED CLOSED DURING SALES

SALES LINES VALUES
SEALED CLOSED WHILE PRODUCING
OPEN DURING SALES

- → Direction of Flow
- P1 Production Valve
- S1 Sales Valve
- E1 Equalizing Valve
- BSW BS&W Valve
- F Fill Line
- O Oil Line
- G Gas Line
- W Water Line
- V Vent Valve
- P1 Load Line
- BSW BS&W Line

EXHIBIT #9

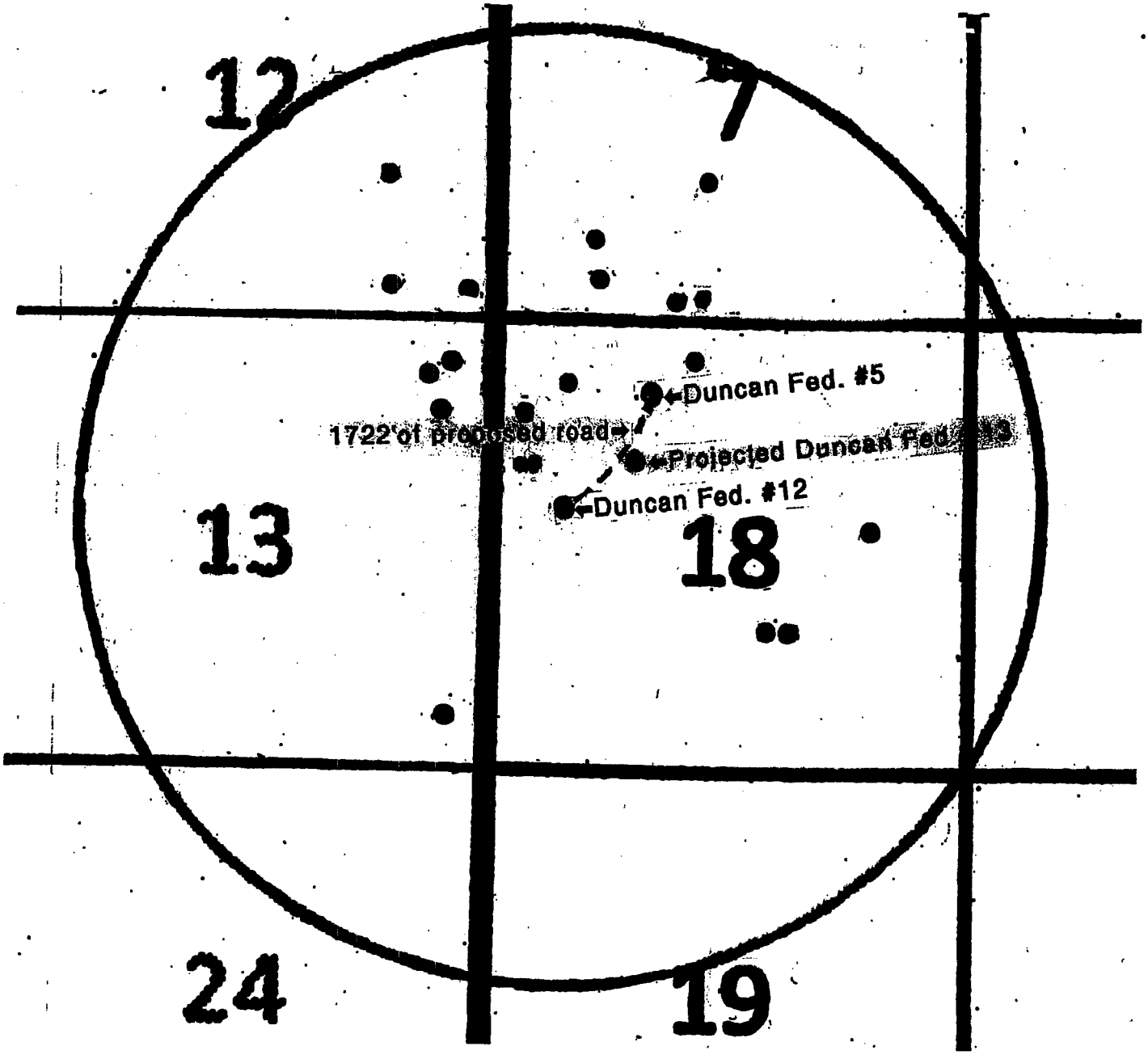
DUNCAN FEDERAL #12

Jalapeno Corporation - Inventory for Cable Tool Drilling

Depth Rating – 7200'

Drawworks:	Cable Tool Rig – 235 Waukesha Engine
Derrick:	66' – 110,000#
Cable:	7,000 feet of 7/8" cable 6' x 19'
Water Tank:	1 – 210 Barrel
Drill Stem:	Set – manual Bit
BOP:	2,000 psi Pressure System Schematic
Sub:	cable 6' x 19'
Light Plant:	Gas - Lincoln Welder Generator
Related Equipment:	1 – Sand Drum 1 – Drilling Drum 1 – Casing Block Drum 1 – Bailer for bailing cuttings

Exhibit #10



Proposed Plan of Development

After speaking with Harley Davis from the BLM-Roswell office at the onsite meeting, we are submitting this additional exhibit #10 to explain our future plan of development. If we are successful with the Duncan #12, we plan to move down dip off of the structure or East for our next well because this will give us the best geological chance to have further success. Because of this plan of development we wanted to keep our access road where we have already staked it because this will cause the least amount of surface disturbance.

JALAPENO CORPORATION
P.O.BOX 1608
ALBUQUERQUE, NM 87103
PHONE: 505-242-2050
FAX: 505-242-8501

FEBRUARY 15, 2017

Dear Ms. Sanchez,

Attached to this letter you will find Jalapeno Corporations Methane Waste Minimization Plan for the Duncan Federal#12 located in 9S 27E of Chaves County, NM. We have tried to answer the questions as best we could and tried to explain our thinking for the ones that didn't seem to apply for this shallow oil project.

Please call if you have any questions or concerns.

Sincerely,

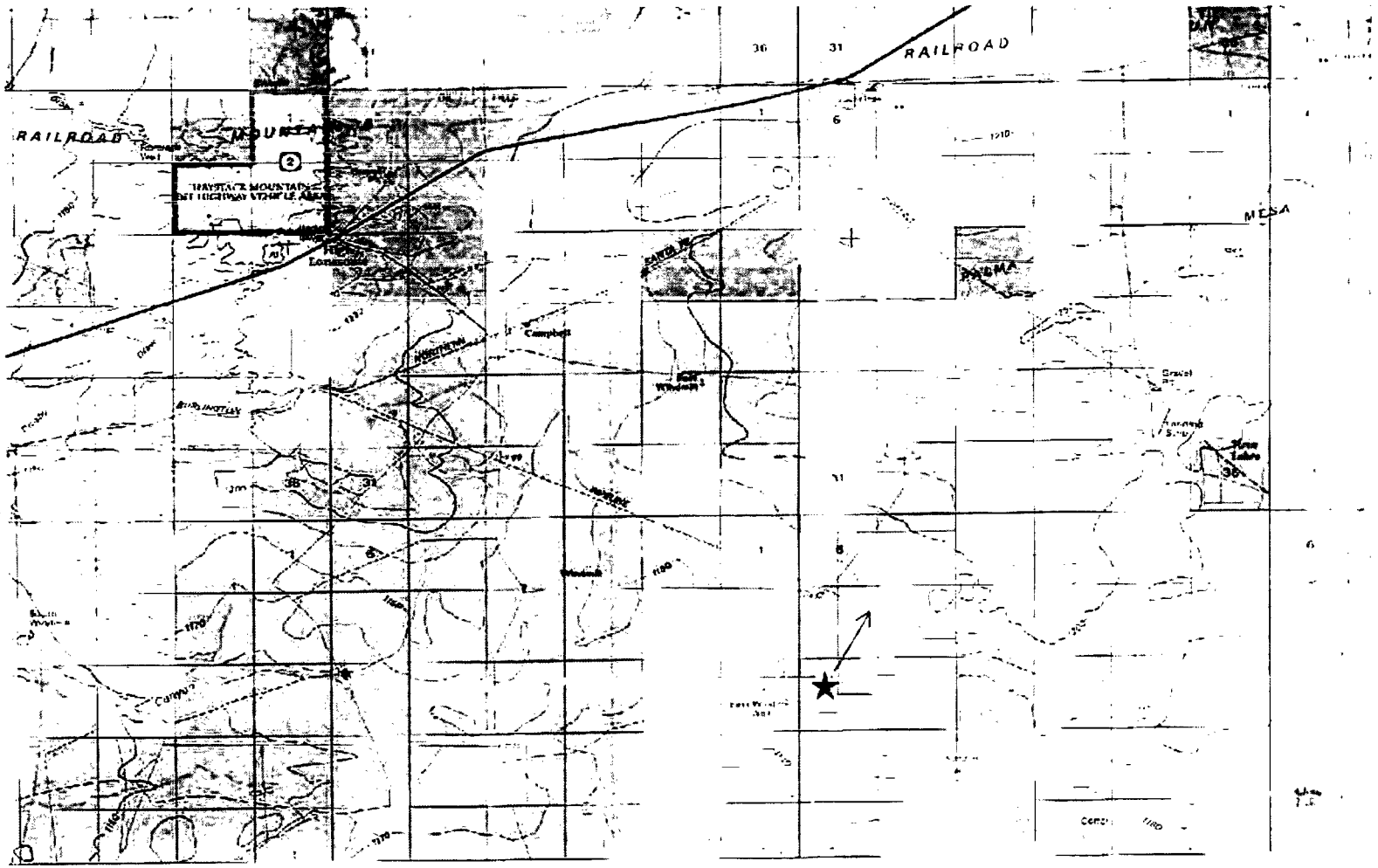
H. Emmons Yates III

METHANE WASTE MINIMIZATION PLAN

1) Jalapeno intends to drill and complete the Duncan Federal#12 as an oil well ASAP after its APD approval.
2) If the Duncan#12 is a successful oil well, Jalapeno anticipates initially having somewhere between 20-40 MCF of sour gas per day which will likely decline to 5-20 MCF/day after the first few months of oil production. This gas will be just enough to run the pump jack. Thus, there will be no excess gas.
3) 3a: Attached map showing the nearest pipeline, The El Paso Natural Gas Pipeline. 3b: Map showing the closest sour gas processing plant, Artesia Gas Plant(sour super), located approximately 54 miles to the south in section 7 of 18s-28e. This plant is operated by DCP Midstream.

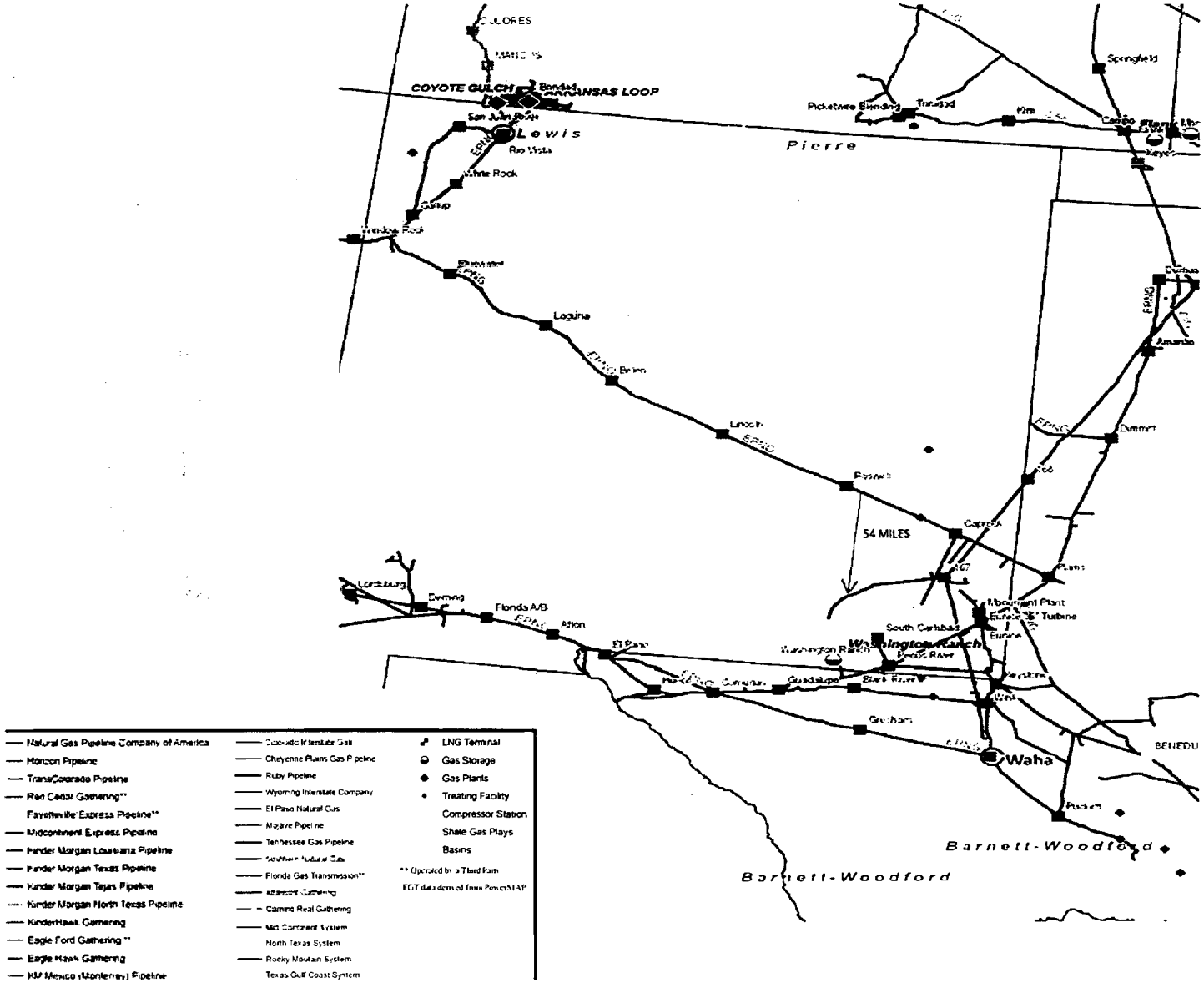
4) Jalapeno does not intend to connect to a pipeline in order to market any gas. The Duncan Federal#12 is a shallow San Andres oil well in an old oil field. These 2000' oil wells do not produce enough gas to justify the construction of a gas pipeline for the following reasons. A: Usually, all the produced gas is used to run the pump jack. B: The little gas that these wells do produce is very sour and would require a gas treatment facility to be built before the gas could enter the closest pipeline system. C: Building our own gas treatment facility is not a realistic option D: The little amount of gas that these wells produce, even if cleaned up, would not have enough volume to enter the closest pipeline, the El Paso Pipeline. E: Because there is not enough gas to enter the El Paso Pipeline 1 mile away, Jalapeno Corporation would have to build a pipeline that connects to the closest gathering facility that can process the sour gas produced from these shallow San Andres wells, approximately 54 miles away. F) Any one of these steps would make the entire project completely uneconomic.
5) (i)The anticipated date of the first production will be 2 months following the approval of the Dunacn#12 APD. (ii)We hope to hit a 40 bbl/day, 20mcf/day initial production well.(iii) We expect the well's oil and gas production to decline at an average rate of somewhere between 24-35% for the first few years and then hold steady at an annual decline rate between 5-10% thereafter. (Please see attached decline curve projection) (iv) The well is projected to have an EUR of 29,200 MCF of gas over a 20 year period. However, because the gas is sour and there is no realistic way to get it to market the real Btu value is $0. However, if one looks at it from the prospective of what it would take us to pay for the propane to run the pump jack versus using the sour gas, I estimate that the 20 year Btu value is $72,000.
6) Jalapeno Corporation currently has two other wells that are still producing in the, Wolflake field. These wells have been producing for many years and currently produce just enough gas to operate their pump jacks. We estimate they are producing about 5-10 MCF/day. We do not flare or vent any gas as all the gas is consumed by the pump jacks.
7) There are no other realistic opportunities for alternative capture approaches and we believe that running the pump jacks from the little gas these wells produce is the most efficient method possible.

3A:MAP SHOWING DUNCAN#12 PROXIMITY TO NEAREST PIPELINE



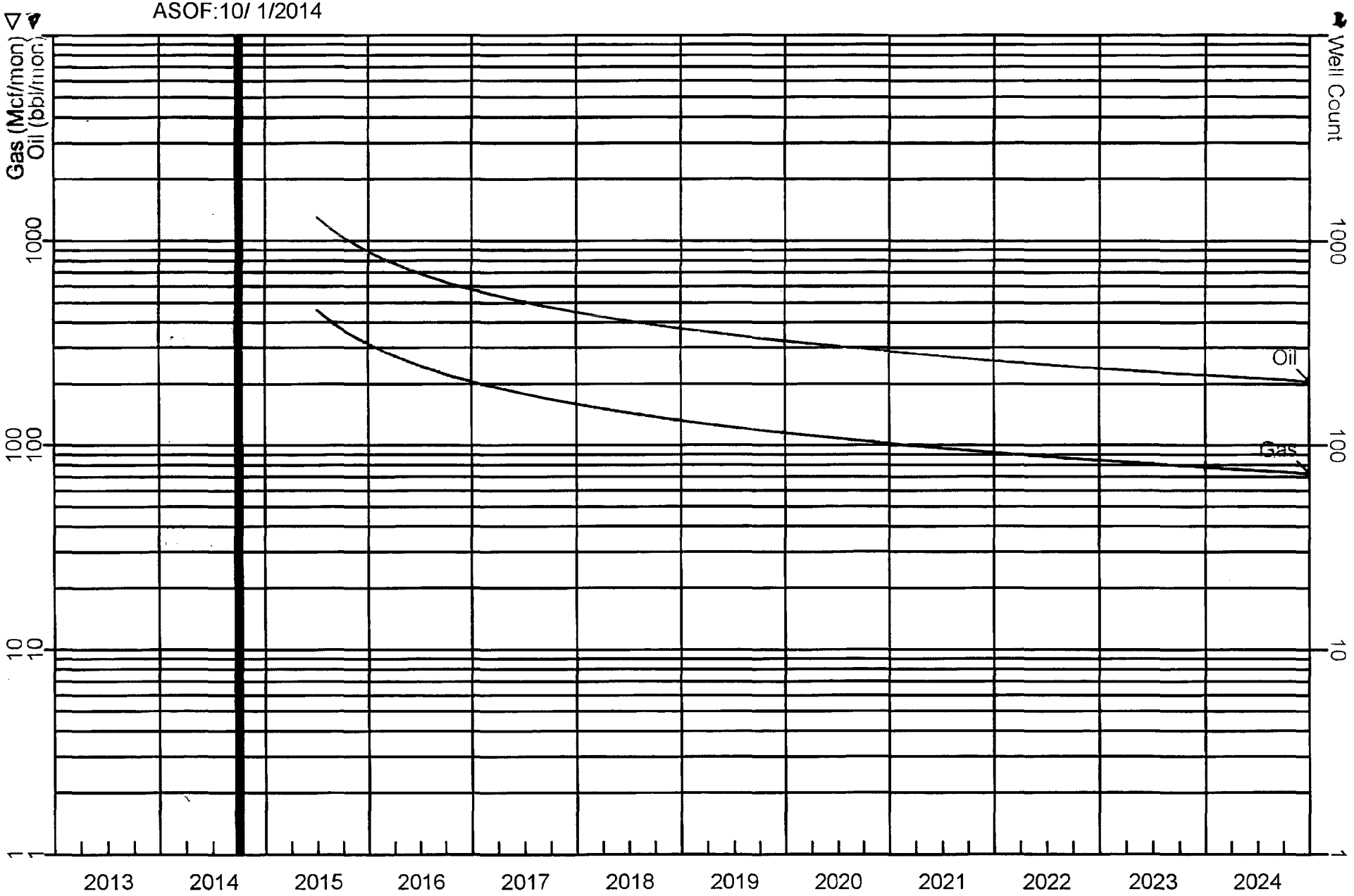
★ THE Duncan Fed#12 is approx. 1 mile away from the EPNG Pipeline

3B: MAP SHOWING DISTANCE FROM DUNCAN#12 TO NEAREST SOUR GAS PROCESSING PLANT



Case Name: Duncan Fed#12 SA 2ND Well
Oper: Jalapeno
API Number:

Field: Wolflake
County, State: Chaves, NM
Disc Value: 1,219.26 M$



Proj Oil Cum: 0.00 Mbbl
Oil Rem: 82.53 Mbbl
Oil EUR: 82.53 Mbbl

Proj Gas Cum: 0.00 MMcf
Gas Rem: 29.20 MMcf
Gas EUR: 29.20 MMcf

Gas Plant List for Offshore and Onshore

(as of 10/3/2016)

Facility Name	Location ID	FMP Number	CID	Customer
4-43 PROCESSING PLANT	Campbell County WY	02490055107	G0409	Thunder Creek Gas Services
50 BUTTES PROCESSING PLANT	Campbell County WY	02490055110	G0409	Thunder Creek Gas Services
AGAVE PLANT	Eddy County, NM	02300155094	G1342	AGAVE ENERGY COMPANY
ALINE ANADARKO GAS PLANT	CESE027023N014W17	02351513534	G0091	ANADARKO PETROLEUM CORPORATION
ALLIANCE COMPRESSOR STATION	Treatment Facility	02421215127	G0045	Crestwood Midstream Partners LP
ALTAMONT (ANR) GAS PLANT	34-1S-4W	02430134304	G4910	COASTAL OIL AND GAS CORP
ALTONAH GAS PLANT	SW-NW-5-2S-3W	02430134301	G0250	COASTAL OIL & GAS
AMOS DRAW GAS PLANT	SEC 32-T51N-R-76W	02490054901	G8711	WESTERN GAS RESOURCES INC
ANADARKO (TABLE ROCK SOUR)	Table Rock, WY	02490375018	G0780	CHEVRON U S A INCORPORATED
ANDERSON GULCH GAS PLANT	Mesa County, CO	02050775115	G0013	DCP Midstream
ANDY'S MESA GAS PLANT	SECTION 28 T44N R15W	02051135013	K2483	ENCANA OIL & GAS USA INC
ANETH GAS PLANT	NW-6-41S-24E	02430374305	G1234	ELKHORN OPERATING COMPANY
ANSCHUTZ RANCH EAST GAS PLANT	26-24-35,13N,121W,6PM	02490414957	G1140	BP AMERICA PRODUCTION COMPANY
ANTELOPE HILLS (W. OK SUPER)	30-16N-24W	02351293555	G0009	ONEOK FIELD SERVICES LP
ANTELOPE RIDGE (SWEET SUPER)	Lea County, NM	02300255062	G0013	DCP Midstream
ARKANSAS LOOP GAS PLANT	32-9W SEC 2 (LA PLATA)	02050670535	G1052	RED CEDAR
ARTESIA GAS PLANT (SOUR SUPER)	S-SE-7-18S-28E	02300153005	G0013	DCP Midstream
ARTESIA SOUR GAS SYSTEM	AGAVE operated plant	02300150265	G1342	AGAVE ENERGY COMPANY
ARTESIA SWEET GAS PLANT	Eddy County NM	02300155100	G1342	AGAVE ENERGY COMPANY
ATOKA LP PLANT	Atoka County, OK	02350055095	G0016	ENOGEX LLC
AUSTIN CREEK GAS PLANT	NATRONA COUNTY	02490254956	G0335	NANCE PETROLEUM CORP
AVALON PLANT	Eddy County, NM	02300155056	G0013	DCP Midstream

District I
1625 N. French Dr., Hobbs, NM 88240
District II
811 S. First St., 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
Department
Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144
Revised June 6, 2013

For temporary pits, below-grade tanks, and multi-well fluid management pits, submit to the appropriate NMOCD District Office.
For permanent pits submit to the Santa Fe Environmental Bureau office and provide a copy to the appropriate NMOCD District Office.

Pit, Below-Grade Tank, or Proposed Alternative Method Permit or Closure Plan Application

Type of action:
- ☐ Below grade tank registration
- ☒ Permit of a pit or proposed alternative method
- ☐ Closure of a pit, below-grade tank, or proposed alternative method
- ☐ Modification to an existing permit/or registration
- ☐ Closure plan only submitted for an existing permitted or non-permitted pit, below-grade tank, or proposed alternative method

Instructions: Please submit one application (Form C-144) per individual pit, below-grade tank or alternative request

Please be advised that approval of this request does not relieve the operator of liability should operations result in pollution of surface water, ground water or the environment. Nor does approval relieve the operator of its responsibility to comply with any other applicable governmental authority's rules, regulations or ordinances.

1.
Operator: JALAPENO CORPORATION OGRID #: 26307
Address: PO BOX 1608 ALBUQUERQUE, NM 87103
Facility or well name: Duncan Federal #12
API Number: _____ OCD Permit Number: _____
U/L or Qtr/Qtr E Section 18 Township 9S Range 28E County: CHAVES
Center of Proposed Design: Latitude 33.534324° N Longitude 104.135755° W NAD: ☐1927 ☒ 1983
Surface Owner: ☒ Federal ☐ State ☐ Private ☐ Tribal Trust or Indian Allotment

2.
☒ **Pit:** Subsection F, G or J of 19.15.17.11 NMAC
Temporary: ☒ Drilling ☐ Workover
☐ Permanent ☐ Emergency ☐ Cavitation ☐ P&A ☐ Multi-Well Fluid Management Low Chloride Drilling Fluid ☒ yes ☐ no
☒ Lined ☐ Unlined Liner type: Thickness 20 mil ☒ LLDPE ☐ HDPE ☐ PVC ☐ Other _____
☐ String-Reinforced
Liner Seams: ☒ Welded ☒ Factory ☐ Other _____ Volume: _____ bbl Dimensions: L 60 x W 15 x D 10

3.
☐ **Below-grade tank:** Subsection I of 19.15.17.11 NMAC
Volume: _____ bbl Type of fluid: _____
Tank Construction material: _____
☐ Secondary containment with leak detection ☐ Visible sidewalls, liner, 6-inch lift and automatic overflow shut-off
☐ Visible sidewalls and liner ☐ Visible sidewalls only ☐ Other _____
Liner type: Thickness _____ mil ☐ HDPE ☐ PVC ☐ Other _____

4.
☐ **Alternative Method:**
Submittal of an exception request is required. Exceptions must be submitted to the Santa Fe Environmental Bureau office for consideration of approval.

5.
Fencing: Subsection D of 19.15.17.11 NMAC *(Applies to permanent pits, temporary pits, and below-grade tanks)*
☐ Chain link, six feet in height, two strands of barbed wire at top *(Required if located within 1000 feet of a permanent residence, school, hospital, institution or church)*
☒ Four foot height, four strands of barbed wire evenly spaced between one and four feet
☐ Alternate. Please specify _____

6.

Netting: Subsection E of 19.15.17.11 NMAC *(Applies to permanent pits and permanent open top tanks)*

☐ Screen ☒ Netting ☐ Other_____

☐ Monthly inspections (If netting or screening is not physically feasible)

7.

Signs: Subsection C of 19.15.17.11 NMAC

☐ 12"x 24", 2" lettering, providing Operator's name, site location, and emergency telephone numbers

☒ Signed in compliance with 19.15.16.8 NMAC

8.

Variances and Exceptions:

Justifications and/or demonstrations of equivalency are required. Please refer to 19.15.17 NMAC for guidance.

Please check a box if one or more of the following is requested, if not leave blank:

☐ Variance(s): Requests must be submitted to the appropriate division district for consideration of approval.

☐ Exception(s): Requests must be submitted to the Santa Fe Environmental Bureau office for consideration of approval.

9.

Siting Criteria (regarding permitting): 19.15.17.10 NMAC

Instructions: The applicant must demonstrate compliance for each siting criteria below in the application. Recommendations of acceptable source material are provided below. **Siting criteria does not apply to drying pads or above-grade tanks.**

General siting	
Ground water is less than 25 feet below the bottom of a low chloride temporary pit or below-grade tank. - ☐ NM Office of the State Engineer - iWATERS database search; ☐ USGS; ☐ Data obtained from nearby wells	☐ Yes ☒ No ☐ NA
Ground water is less than 50 feet below the bottom of a Temporary pit, permanent pit, or Multi-Well Fluid Management pit . NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells	☐ Yes ☒ No ☐ NA
Within incorporated municipal boundaries or within a defined municipal fresh water well field covered under a municipal ordinance adopted pursuant to NMSA 1978, Section 3-27-3, as amended. **(Does not apply to below grade tanks)** - Written confirmation or verification from the municipality; Written approval obtained from the municipality	☐ Yes ☒ No
Within the area overlying a subsurface mine. **(Does not apply to below grade tanks)** - Written confirmation or verification or map from the NM EMNRD-Mining and Mineral Division	☐ Yes ☒ No
Within an unstable area. **(Does not apply to below grade tanks)** - Engineering measures incorporated into the design; NM Bureau of Geology & Mineral Resources; USGS; NM Geological Society; Topographic map	☐ Yes ☒ No
Within a 100-year floodplain. **(Does not apply to below grade tanks)** - FEMA map	☐ Yes ☒ No
Below Grade Tanks	
Within 100 feet of a continuously flowing watercourse, significant watercourse, lake bed, sinkhole, wetland or playa lake (measured from the ordinary high-water mark). - Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☐ No
Within 200 horizontal feet of a spring or a fresh water well used for public or livestock consumption;. - NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site	☐ Yes ☐ No
Temporary Pit using Low Chloride Drilling Fluid (maximum chloride content 15,000 mg/liter)	
Within 100 feet of a continuously flowing watercourse, or any other significant watercourse or within 200 feet of any lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). (Applies to low chloride temporary pits.) - Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☒ No
Within 300 feet from a occupied permanent residence, school, hospital, institution, or church in existence at the time of initial application. - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image	☐ Yes ☒ No
Within 200 horizontal feet of a spring or a private, domestic fresh water well used by less than five households for domestic or stock watering purposes, or 300feet of any other fresh water well or spring, in existence at the time of the initial application. NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site	☐ Yes ☒ No

Within 100 feet of a wetland. - US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☒ No
Temporary Pit Non-low chloride drilling fluid	
Within 300 feet of a continuously flowing watercourse, or any other significant watercourse, or within 200 feet of any lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). - Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☐ No
Within 300 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application. - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image	☐ Yes ☐ No
Within 500 horizontal feet of a spring or a private, domestic fresh water well used by less than five households for domestic or stock watering purposes, or 1000 feet of any other fresh water well or spring, in the existence at the time of the initial application; - NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site	☐ Yes ☐ No
Within 300 feet of a wetland. - US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☐ No
Permanent Pit or Multi-Well Fluid Management Pit	
Within 300 feet of a continuously flowing watercourse, or 200 feet of any other significant watercourse, or lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). - Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☐ No
Within 1000 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application. - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image	☐ Yes ☐ No
Within 500 horizontal feet of a spring or a fresh water well used for domestic or stock watering purposes, in existence at the time of initial application. - NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site	☐ Yes ☐ No
Within 500 feet of a wetland. - US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☐ No

10.
Temporary Pits, Emergency Pits, and Below-grade Tanks Permit Application Attachment Checklist: Subsection B of 19.15.17.9 NMAC
Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

☐ Hydrogeologic Report (Below-grade Tanks) - based upon the requirements of Paragraph (4) of Subsection B of 19.15.17.9 NMAC
☒ Hydrogeologic Data (Temporary and Emergency Pits) - based upon the requirements of Paragraph (2) of Subsection B of 19.15.17.9 NMAC
☒ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
☒ Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
☒ Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
☒ Closure Plan (Please complete Boxes 14 through 18, if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC

☐ Previously Approved Design (attach copy of design) API Number: _____ or Permit Number: _____

11.
Multi-Well Fluid Management Pit Checklist: Subsection B of 19.15.17.9 NMAC
Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

☐ Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
☐ Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
☐ A List of wells with approved application for permit to drill associated with the pit.
☐ Closure Plan (Please complete Boxes 14 through 18, if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC
☐ Hydrogeologic Data - based upon the requirements of Paragraph (4) of Subsection B of 19.15.17.9 NMAC
☐ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC

☐ Previously Approved Design (attach copy of design) API Number: _____ or Permit Number: _____

12.
Permanent Pits Permit Application Checklist: Subsection B of 19.15.17.9 NMAC
Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

- ☐ Hydrogeologic Report - based upon the requirements of Paragraph (1) of Subsection B of 19.15.17.9 NMAC
- ☐ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
- ☐ Climatological Factors Assessment
- ☐ Certified Engineering Design Plans - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Dike Protection and Structural Integrity Design - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Leak Detection Design - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Liner Specifications and Compatibility Assessment - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Quality Control/Quality Assurance Construction and Installation Plan
- ☐ Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
- ☐ Freeboard and Overtopping Prevention Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☐ Nuisance or Hazardous Odors, including H_2S, Prevention Plan
- ☐ Emergency Response Plan
- ☐ Oil Field Waste Stream Characterization
- ☐ Monitoring and Inspection Plan
- ☐ Erosion Control Plan
- ☐ Closure Plan - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC

13.
Proposed Closure: 19.15.17.13 NMAC
Instructions: Please complete the applicable boxes, Boxes 14 through 18, in regards to the proposed closure plan.

Type: ☒ Drilling ☐ Workover ☐ Emergency ☐ Cavitation ☐ P&A ☐ Permanent Pit ☐ Below-grade Tank ☐ Multi-well Fluid Management Pit ☐ Alternative

Proposed Closure Method: ☐ Waste Excavation and Removal
☐ Waste Removal (Closed-loop systems only)
☒ On-site Closure Method (Only for temporary pits and closed-loop systems)
☒ In-place Burial ☐ On-site Trench Burial
☐ Alternative Closure Method

14.
Waste Excavation and Removal Closure Plan Checklist: (19.15.17.13 NMAC) ***Instructions: Each of the following items must be attached to the closure plan. Please indicate, by a check mark in the box, that the documents are attached.***

- ☐ Protocols and Procedures - based upon the appropriate requirements of 19.15.17.13 NMAC
- ☐ Confirmation Sampling Plan (if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.13 NMAC
- ☐ Disposal Facility Name and Permit Number (for liquids, drilling fluids and drill cuttings)
- ☐ Soil Backfill and Cover Design Specifications - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
- ☐ Re-vegetation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
- ☐ Site Reclamation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC

15.
Siting Criteria (regarding on-site closure methods only): 19.15.17.10 NMAC
Instructions: Each siting criteria requires a demonstration of compliance in the closure plan. Recommendations of acceptable source material are provided below. Requests regarding changes to certain siting criteria require justifications and/or demonstrations of equivalency. Please refer to 19.15.17.10 NMAC for guidance.

Ground water is less than 25 feet below the bottom of the buried waste. - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells	☐ Yes ☒ No ☐ NA
Ground water is between 25-50 feet below the bottom of the buried waste - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells	☐ Yes ☒ No ☐ NA
Ground water is more than 100 feet below the bottom of the buried waste. - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells	☒ Yes ☐ No ☐ NA
Within 100 feet of a continuously flowing watercourse, or 200 feet of any other significant watercourse, lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). - Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☒ No
Within 300 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application. - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image	☐ Yes ☒ No
Within 300 horizontal feet of a private, domestic fresh water well or spring used for domestic or stock watering purposes, in existence at the time of initial application. - NM Office of the State Engineer - iWATERS database; Visual inspection (certification) of the proposed site	☐ Yes ☒ No
Written confirmation or verification from the municipality; Written approval obtained from the municipality	☐ Yes ☐ No NA
Within 300 feet of a wetland. US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site	☐ Yes ☒ No
Within incorporated municipal boundaries or within a defined municipal fresh water well field covered under a municipal ordinance	

adopted pursuant to NMSA 1978, Section 3-27-3, as amended. - Written confirmation or verification from the municipality; Written approval obtained from the municipality	☐ Yes ☐ No NA
Within the area overlying a subsurface mine. - Written confirmation or verification or map from the NM EMNRD-Mining and Mineral Division	☐ Yes ☒ No
Within an unstable area. - Engineering measures incorporated into the design; NM Bureau of Geology & Mineral Resources; USGS; NM Geological Society; Topographic map	☐ Yes ☒ No
Within a 100-year floodplain. - FEMA map	☐ Yes ☒ No

16.
On-Site Closure Plan Checklist: (19.15.17.13 NMAC) ***Instructions: Each of the following items must be attached to the closure plan. Please indicate, by a check mark in the box, that the documents are attached.***

- ☒ Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
- ☒ Proof of Surface Owner Notice - based upon the appropriate requirements of Subsection E of 19.15.17.13 NMAC
- ☐ Construction/Design Plan of Burial Trench (if applicable) based upon the appropriate requirements of Subsection K of 19.15.17.11 NMAC
- ☒ Construction/Design Plan of Temporary Pit (for in-place burial of a drying pad) - based upon the appropriate requirements of 19.15.17.11 NMAC
- ☒ Protocols and Procedures - based upon the appropriate requirements of 19.15.17.13 NMAC
- ☐ Confirmation Sampling Plan (if applicable) - based upon the appropriate requirements of 19.15.17.13 NMAC
- ☒ Waste Material Sampling Plan - based upon the appropriate requirements of 19.15.17.13 NMAC
- ☒ Disposal Facility Name and Permit Number (for liquids, drilling fluids and drill cuttings or in case on-site closure standards cannot be achieved)
- ☒ Soil Cover Design - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
- ☒ Re-vegetation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
- ☒ Site Reclamation Plan - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC

17.
Operator Application Certification:

I hereby certify that the information submitted with this application is true, accurate and complete to the best of my knowledge and belief.

Name (Print): H. Emmons Yates, III Title: Vice President

Signature: [signature] Date: 11/15/2014

e-mail address: eyates@jalapenocorp.com Telephone: 505-242-2050

18.
OCD Approval: ☐ Permit Application (including closure plan) ☐ Closure Plan (only) ☐ OCD Conditions (see attachment)

OCD Representative Signature: _____ **Approval Date:** _____

Title: _____ **OCD Permit Number:** _____

19.
Closure Report (required within 60 days of closure completion): 19.15.17.13 NMAC

Instructions: Operators are required to obtain an approved closure plan prior to implementing any closure activities and submitting the closure report. The closure report is required to be submitted to the division within 60 days of the completion of the closure activities. Please do not complete this section of the form until an approved closure plan has been obtained and the closure activities have been completed.

☐ **Closure Completion Date:** _____

20.
Closure Method:

☐ Waste Excavation and Removal ☐ On-Site Closure Method ☐ Alternative Closure Method ☐ Waste Removal (Closed-loop systems only)
☐ If different from approved plan, please explain.

21.
Closure Report Attachment Checklist: ***Instructions: Each of the following items must be attached to the closure report. Please indicate, by a check mark in the box, that the documents are attached.***

- ☐ Proof of Closure Notice (surface owner and division)
- ☐ Proof of Deed Notice (required for on-site closure for private land only)
- ☐ Plot Plan (for on-site closures and temporary pits)
- ☐ Confirmation Sampling Analytical Results (if applicable)
- ☐ Waste Material Sampling Analytical Results (required for on-site closure)
- ☐ Disposal Facility Name and Permit Number
- ☐ Soil Backfilling and Cover Installation
- ☐ Re-vegetation Application Rates and Seeding Technique
- ☐ Site Reclamation (Photo Documentation)

On-site Closure Location: Latitude _____ Longitude _____ NAD: ☐1927 ☐ 1983

22.

Operator Closure Certification:

I hereby certify that the information and attachments submitted with this closure report is true, accurate and complete to the best of my knowledge and belief. I also certify that the closure complies with all applicable closure requirements and conditions specified in the approved closure plan.

Name (Print): _____ Title: _____

Signature: _____ Date: _____

e-mail address: _____ Telephone: _____

JALAPENO CORPORATION

DUNCAN FEDERAL #12

2145' FN L & 694' FW L
SECTION 18, T. 9-S, R. 28-E
CHAVES COUNTY, NEW MEXICO

OIL CONSERVATION DIVISION (OCD) - FORM C-144

A. SITING CITERIA (REGARDING PERMITTING)
(See page 2)

B. TEMPORARY PITS PERMIT APPLICATION ATTACHMENT CHECKLIST
(See pages 3-8)

1. **HYDROGEOLOGIC DATA**
(See page 3)

2. **TEMPORARY PIT DESIGN PLAN**
(See pages 3-4)

3. **OPERATING AND MAINTENANCE PLAN – Protocols and Procedures**
(See pages 4-5)

4. **CLOSURE PLAN**
(See pages 5-8) includes 3.Waste Materials Sampling Plan (page 5)
   a. SITE RECLAMATION PLAN
   (See page 6)
   b. SOIL COVER DESIGN
   (See pages 6-7)
   c. RE-VEGETATION
   (See page 7)
   d. STEEL MARKER FOR ON-SITE CLOSURE
   (See page 7)
   e. OTHER GENERAL REQUIREMENTS
   (See page 8)

C. EXHIBITS

Exhibit A – Duncan Federal #4Y Daily Drilling Report
Exhibit B – Google Earth Map
Exhibit C – EMNRD MMD Active Mines Web Map
Exhibit D – Topography Map- Location Verification Map
Exhibit E – U.S. Fish and Wildlife Service- National Wetlands Inventory Map
Exhibit F – NM OSE Water Column/Average Depth to Water Data Sheet
Exhibit G – FEMA/FIRM Panel Map
Exhibit H – Pit Diagram

JALAPENO CORPORATION

DUNCAN FEDERAL #12

2145' FN L & 694' FW L
SECTION 18, T. 9-S, R. 28-E
CHAVES COUNTY, NEW MEXICO

FORM C-144 COMPLIANCE DEMONSTRATIONS:

9. SITING CRITERIA (REGARDING PERMITTING):

GENERAL SITING

Enclosed herewith are maps and documents to support siting criteria required by 19.15. 17.10 NMAC.

Attached is the first page of the Daily Drilling Report for the Duncan #4Y which is located approximately 400ft Northwest of this proposed well location (See Exhibit A) and was drilled with cable tools. The Duncan #4Y drilling report shows that water was hit at approximately 385 feet which indicates the depth of the ground water for the Duncan Federal #12 should also be around 385 feet and would be more than 100 feet below bottom of the low chloride temporary pit.

This well site is outside any municipal boundaries and so there is no defined municipal fresh water field covered under a municipal ordinance adopted pursuant to NMSA 1978, Section 3-27-3, as amended, within proposed well site (See Exhibit B & E).

The well site is not within the area overlying a subsurface mine (See Exhibit C) or within an unstable area (See Exhibit D). Upon examination of the FEMA website, we found that a FIRM Panel was not printed for the proposed Duncan Federal #12 drill site (See Exhibit G). Therefore we cannot verify that this well site is not within a 100-Year Flood Plain. However, the surrounding area is not within a flood plan and we believe with a high level of certainty the location for the Duncan Fed #12 is not in a flood plan of any sort. (See Exhibit G).

TEMPORARY PIT USING LOW CHLORIDE DRILLING FLUID (maximum chloride content 15,000 mg/liter).

From our site inspection of the location and various maps, there are no continuously flowing watercourse, or any other significant watercourse within 100 feet or any significant watercourse lakebeds, sinkhole or playa lakes within 200 feet of the site (See Exhibits B, D & E).

There are no occupied permanent residences, school, hospitals, institutions or churches in existence within 300 feet of well site (See Exhibit B & D).

From the New Mexico Office of the State Engineer database and visual inspection there are no springs or private, domestic fresh water wells used by less than five household for domestic or stock watering purposes within 200 horizontal feet of the well site, and there are no of any other fresh water wells or springs within 300 feet of the site. The closest water well appears to be approximately 6 mile away and at a water depth of 600ft. (See Exhibit F).

The well site is not within 300 feet of a wetland (See Exhibit E).

H. Emmons Yates, III

Nov 15 2014
Date

JALAPENO CORPORATION

DUNCAN FEDERAL #12

2145' FN L & 694' FW L
SECTION 18, T. 9-S, R. 28-E
CHAVES COUNTY, NEW MEXICO

10. TEMPORARY PITS PERMIT APPLICATION ATTACHMENT CHECKLIST: Subsection B of 19.15.17.9 NMAC

☒ **HYDROGEOLOGIC DATA:**
The hydrogeologic data below provides information and detail on the site's topography, soils, geology, surface hydrology and ground water hydrology in compliance with the siting criteria of 19.15.17.10 NMAC.

1. Topography: Flat well site.(See Exhibits B &D).

2. Soils: Soil near the well site is mostly fine sand with some gravel (See Exhibit B).

3. Surface Hydrology (Ponds & Streams): There are no nearby streams or ponds. (See Exhibit B & E).

4. Ground water Hydrology: According to the NM OSE Website, the nearest water well appears to be approximately 600 feet away (Exhibit F).

☒ **TEMPORARY PIT DESIGN PLAN:**

1. We will design and construct a pit to contain liquids and solids; prevent contamination of fresh water; and protect public health and the environment.

2. Prior to constructing a pit, we will strip and stockpile the topsoil for use as the final cover or fill at the time of closure.

3. The temporary pit will have a properly constructed foundation and interior slopes consisting of a firm, unyielding base, smooth and free of rocks, debris, sharp edges, or irregularities to prevent ruptures or tears in the liner. We will construct a temporary pit so that the slopes are no steeper than two horizontal feet to one vertical foot (2H:1V).

4. We will design and construct a temporary pit with a geomembrane liner. The geomembrane liner will consist of 20- mil string reinforced LLDPE or equivalent liner material that the appropriate division district office approves. The geomembrane liner shall be composed of an impervious, synthetic material that is resistant to petroleum hydrocarbons, salts and acidic and alkaline solutions. The liner material shall be resistant to ultraviolet light. Liner compatibility shall comply with EPA SW-846 Method 9090A.

5. We minimize liner seams and orient them up and down, not across, a slope and shall avoid excessive stress-strain on the liner. We will use factory welded seams where possible. Prior to field seaming, we will overlap liners four to six inches. We will minimize the number of field

seams in corners and irregularly shaped areas. Qualified personnel shall field weld and test liner seams.

6. We will use Geotexile under the liner where it is needed to reduce localized stress-strain or protuberances that may otherwise compromise the liner's integrity.

7. We will anchor the edges of all liners in the bottom of a compacted earth-filled trench. The anchor trench shall be at least 18 inches deep, unless anchoring to encountered bedrock provides equivalent anchoring.

8. We will ensure that the liner is protected from any fluid force or mechanical damage at any point of discharge into or suction from the lined temporary pit.

9. We will design and construct a temporary pit to prevent run-on of surface water. A berm, ditch, proper sloping or other diversion shall surround the temporary pit to prevent run-on of surface water.

10. The volume of a temporary pit shall not exceed 10 acre feet, including freeboard.

11. We will not allow freestanding liquids to remain on the unlined portion of a temporary pit used to vent or flare gas.

☒ **OPERATING AND MAINTENANCE PLAN - Protocols and Procedures**

1. We will operate and maintain a pit to contain liquids and solids and maintain the integrity of the liner, liner system or secondary containment system, prevent contamination of fresh water and protect public health and the environment.

2. We will recycle, reuse, reclaim or dispose of all drilling fluids in a manner consistent with division rules.

3. We will not discharge into or store any hazardous waste in a pit.

4. If the pit liner's integrity is compromised above the liquid's surface, we will repair the damage or initiate replacement of the liner within 48 hours of discovery or seek a variance from the appropriate division district office.

5. If the pit develops a leak, or if any penetration of the pit liner occurs below the liquid's surface, we will remove all liquid above the damage or leak within 48 hours of discovery, notify the appropriate division office pursuant to 19.15.29 NMAC and repair the damage or replace the pit liner as applicable.

6. The injection or withdrawal of liquids from a pit shall be accomplished through a header, diverter or other hardware that prevents damage to the liner by erosion, fluid jets or impact from installation and removal of hoses or pipes.

7. We will operate and install the pit to prevent the collection of surface water run-on.

8. We will install, or maintain on site, an oil absorbent boom or other device to contain an unanticipated release.

9. Only fluids or mineral solids generated or used during the drilling will be discharged into a temporary pit. We will maintain a temporary pit free of miscellaneous solid waste or debris. Immediately after cessation of a drilling operation, we will remove any visible layer of oil from the surface of the pit.

10. We will maintain at least two feet of freeboard for a temporary pit.

11. We will inspect a temporary pit containing drilling fluids at least daily while the drilling rig is on location. Thereafter, we will inspect the temporary pit weekly so long as liquids remain in the temporary pit. We will maintain a log of such inspections and make the log available for the appropriate division district office's review upon request.

12. We will remove all free liquids from the surface of a temporary pit within 60 days from the date that the operator releases the last drilling rig associated with the relevant pit permit. We will note the date of the drilling rig's release on form C-105 or C-103 upon well completion.

☒ CLOSURE PLAN:

1. When closing a temporary pit we will stabilize or solidify the remaining temporary pit contents with soil or other non-waste material at a ratio of no more than 3:1 soil to a capacity sufficient to support the final cover of the temporary pit.

2. The (stabilized) waste mixture must pass the paint filter liquids test (EPS SW-846, Method 9095 or other test methods approved by the division).

3. After the waste has been solidified or stabilized stabilization, a five-point composite sample will be collected and tested from content of the pit in accordance to OCD's rules and regulations to determine if the specified concentrations for in-place burial of temporary pit are met or, if the specified concentrations for in-place closure of temporary pit are exceeded.

4. Waste Material Sampling Plan: Since the ground water will be more than 100 feet below the bottom of the buried waste, we will follow the parameters listed in Table II of 19.15.17.13 NMAC. We will collect, at a minimum, a five point composite sample of the contents of the temporary pit after treatment or stabilization to demonstrate that Benzene, as determined by EPA SW-846

method 8021B or 8015M, does not exceed 10 mg/kg; BTEX, as determined by EPA SW-846 method 8021B or 8260B, does not exceed 50 mg/kg; the GRO and DRO combined fraction, as determined by EPA SW-846 method 8015M, does not exceed 1,000 mg/kg; TPH, as determined by EPA method 418.1 or other EPA method that the division approves, does not exceed 2500 mg/kg; and Chloride, as determined by EPA method 300.0, does not exceed 80000 mg/kg.

5. The test results will be sent to the District Office.

6. If, after appropriate stabilization, the concentrations of all contaminants in the contents from a temporary pit less than or equal the parameters listed above in #3 from Table II of 19.15.17.13 NMAC, we will proceed to dispose of wastes in the existing temporary pit.

7. If the concentration of any contaminant in the contents, after mixing with soil or non-waste material to a maximum ratio of 3:1, from a temporary pit is higher than constituent concentrations shown in Table II of 19.15.17.13 NMAC, we will have all unused stimulation liquids and the disposition of liner materials and other pit contents removed to an OCD approved disposal facility in lieu of any on-site closure in accordance with Subsection C of 19.15.17.13 NMAC.

   Disposal Facility Name: Gandy Marley Landfarm
   Disposal Facility Permit Number: NM 711-01-0019

8. Upon achieving all applicable waste stabilization in the temporary pit, we will fold the outer edges of the liner to overlap the waste material in the pit/trench prior to the installation of the geomembrane cover and install a geomembrane cover over the waste material in the temporary pit; we will install the geomembrane cover in a manner that prevents the collection of infiltration water in the temporary pit and on the geomembrane cover after the soil cover is in place. The geomembrane cover shall consist of a 20-mil string reinforced LLDPE liner or equivalent cover that the appropriate division district office approves. The geomembrane cover shall be composed of an impervious, synthetic material that is resistant to petroleum hydrocarbons, salts and acidic and alkaline solutions; cover compatibility shall comply with EPA SW-846 Method 9090A.

Site Reclamation Plan

1. Once we have closed a pit we shall reclaim the pit location and all areas associated with the pit to a safe and stable condition that blends with the surrounding undisturbed area. We shall substantially restore the impacted surface area to the condition that existed prior to oil and gas operations by placement of the soil cover as provided in soil cover designs below, recontour the location and associated areas to a contour that approximates the original contour and blends with the surrounding topography and re-vegetate according to re-vegetation below.

2. Areas reasonably needed for production operations or for subsequent drilling operations shall be compacted, covered, paved, or otherwise stabilized and maintained in such a way as to minimize dust and erosion to the extent practicable.

3. All other areas disturbed by the closure of pits shall be reclaimed as early and as nearly as practicable to their original condition or their final land use and shall be maintained to control dust and minimize erosion to the extent practicable.

Soil Cover Design

1. The soil cover for burial in-place pit will consist of a minimum of four feet of non-waste containing, uncontaminated, earthen material with chloride concentrations less than 600 mg/kg as analyzed by EPA Method 300.0. The soil cover shall include either the background thickness of topsoil or one foot of suitable material to establish vegetation at the site, whichever is greater. The operator shall construct the soil cover to the site's existing grade and prevent pooling of water and erosion of the cover material.

2 Topsoils and subsoils will be replaced to their original relative positions and contoured so as to achieve erosion control, long-term stability and preservation of surface water flow patterns.

Re-vegetation

1. The disturbed area then shall be reseeded in the first favorable growing season following closure of a pit.

2. We shall accomplish seeding by drilling on the contour whenever practical or by other division-approved methods. We shall obtain a uniform vegetative that reflects a life-form ratio of plus or minus fifty percent (50%) of pre-disturbance levels and a total percent plant cover of at least seventy percent (70%) of pre-disturbance levels, excluding noxious weeds and maintain that cover through two successive growing seasons. During the two growing seasons that prove viability, there shall be no artificial irrigation of the vegetation.

3. We shall notify the division when location has been seeded or planted and when this area has successfully achieves re-vegetation. We shall repeat seeding or planting until it successfully achieves the required vegetative cover.

Steel Marker for On-Site Closure

1. A steel marker will be place at the center of the on-site burial location and we will file a C-105 within 60 days of closing the temporary pit with our closure report with the OCD division office stating the exact location of the on-site burial. The steel marker shall be not less than four inches in diameter and shall be cemented in a three-foot deep hole at a minimum. The steel marker shall extend at least four feet above mean ground level and at least three feet below ground level. The operator name, lease name and well number and location, including unit letter, section, township and range, and that the marker designates an on-site burial location shall be welded, stamped or otherwise permanently engraved into the metal of the steel marker.

2. No permanent structures will be built over the onsite burial without the appropriate division district office's written approval. Nor will the onsite burial marker be removed without the division's written permission.

3. We will also file a deed notice identifying the exact location of the on-site burial with the Otero County Clerk.

Other General Requirements:

1. Once construction of the pit has been scheduled, we will notify the NMOCD District #2 Office of the anticipated construction date.

2. We will not implement closure procedures until we get approval from the OCD District Office.

3. We will close a permitted temporary pit within six months from the date that we release the drilling rig. We will note the date of the drilling release on form C-105 or C-103, filed with the division, upon the well's completion.

4. We will notify the surface owner by certified mail, return receipt requested (at the address of the surface owner shown in the Otero county tax records) of our onsite closure operations at least 72 hours, but not more than one week, prior to any closure operation.

5. We will notify the appropriate division district office verbally and in writing at least 72 hours, but not more than one week, of our onsite closure operations. The notice shall include the operator's name, well name, API number and location. A copy of the notice will be included in the Closure report.

6. Within 60 days of closure completion, we shall submit a closure report on form C-144, with necessary attachments to document all closure activities including sampling results; information required by 19.15.17 NMAC; pit log and details on back-filling, capping and covering, where applicable. In the closure report, we will certify that all information in the report and attachments is correct and that the operator has complied with all applicable closure requirements and conditions specified in the approved closure plan. We will provide a plat of the pit location on form C-1 05 within 60 days of closing the temporary pit.

7. The Pit will not be considered closed until NMOCD receives notification as required by [19.15.17.H(5)]

EXHIBIT A

Jalapeno Corporation

Daily Drilling Report

DUNCAN FEDERAL #4Y
API- 30-005-62867
S18-T9S-R28E
Chaves, NM

April 12, 1991- Shut down Duncan #4.

June 12, 1991- Skidded over approximately 10' from Duncan #4. Rig up.

June 13, 1991- Moved compressor to location. Rig up.

June 14, 1991- Commenced drilling replacement hole. Bit 14 ¾". Drilled to 230'. Driller sick (Pnemonia). Shut down.

June 15, 1991- Shut down until 7/1/1991

July 1, 1991- Commenced drilling again. 8 5/8" surface casing moved to location.

July 2, 1991- Drilled 230'-350'. 12 ½" bit. 100 rpm; wight 8,000 psi. Compressor 160 psi.

July 3, 1991- Drilled to 385'. 12 ¼" bit. 100 rpm, weight 8,000 lbs, compression 160 psi. hit significant water zone. Drilling with foam. Ran out of drilling water. Standby.

July 4, 1991- Shut down for Independence day.

July 5, 1991- Drilled to 412'. 12 1/4" hole. 100 rpm. Weight 8,000 lbs. compressor 160 psi.

EXHIBIT B

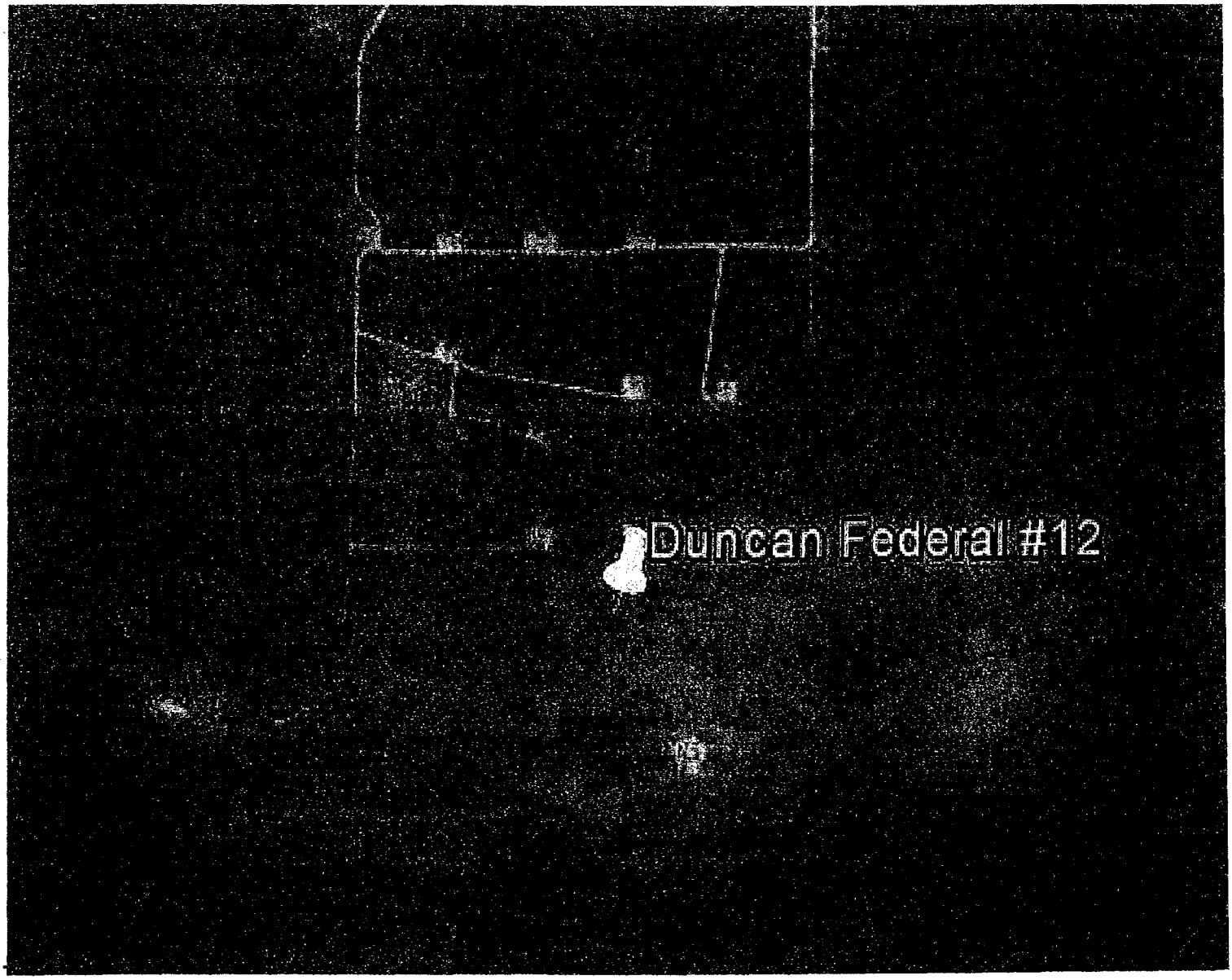
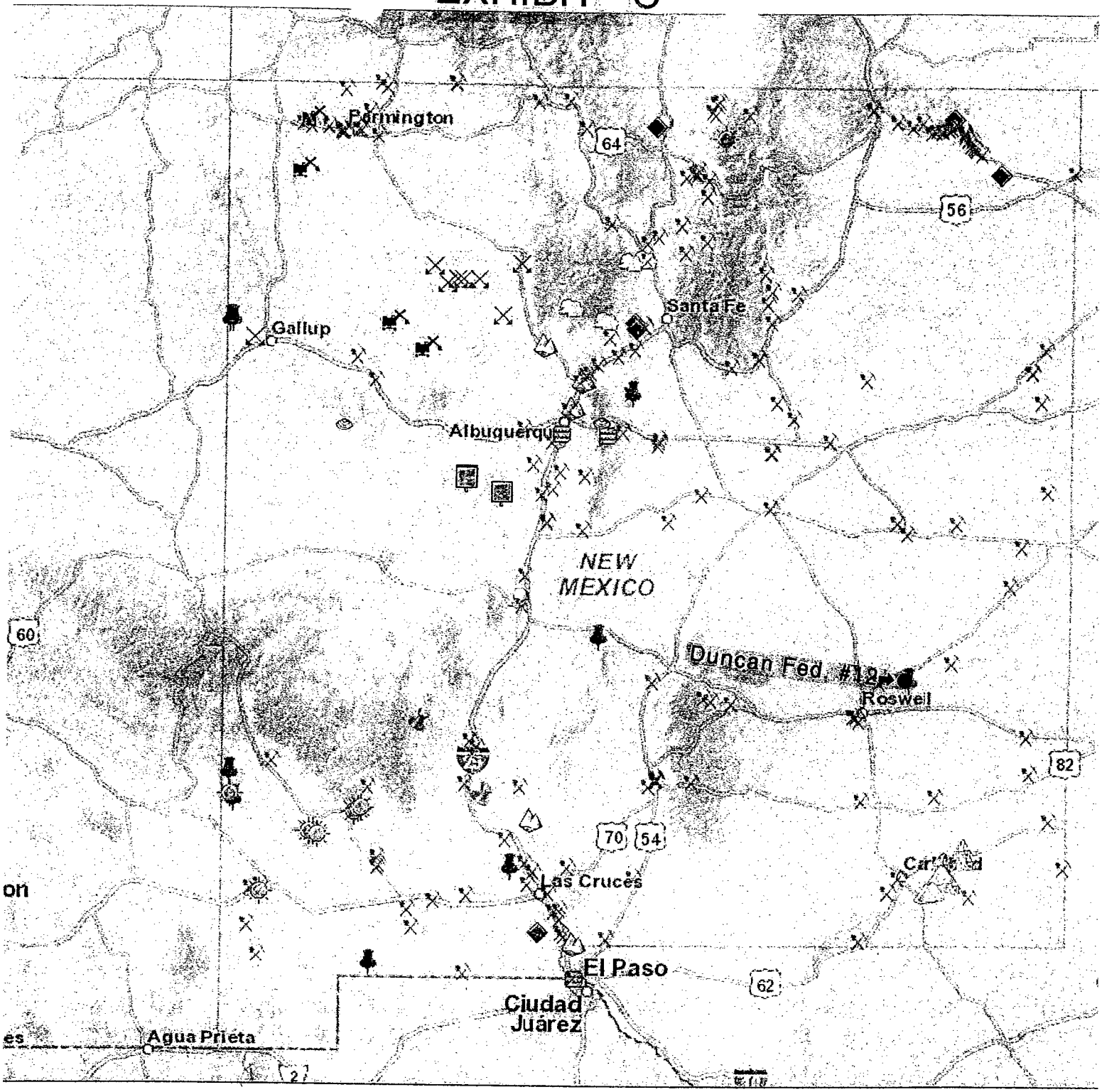


EXHIBIT C

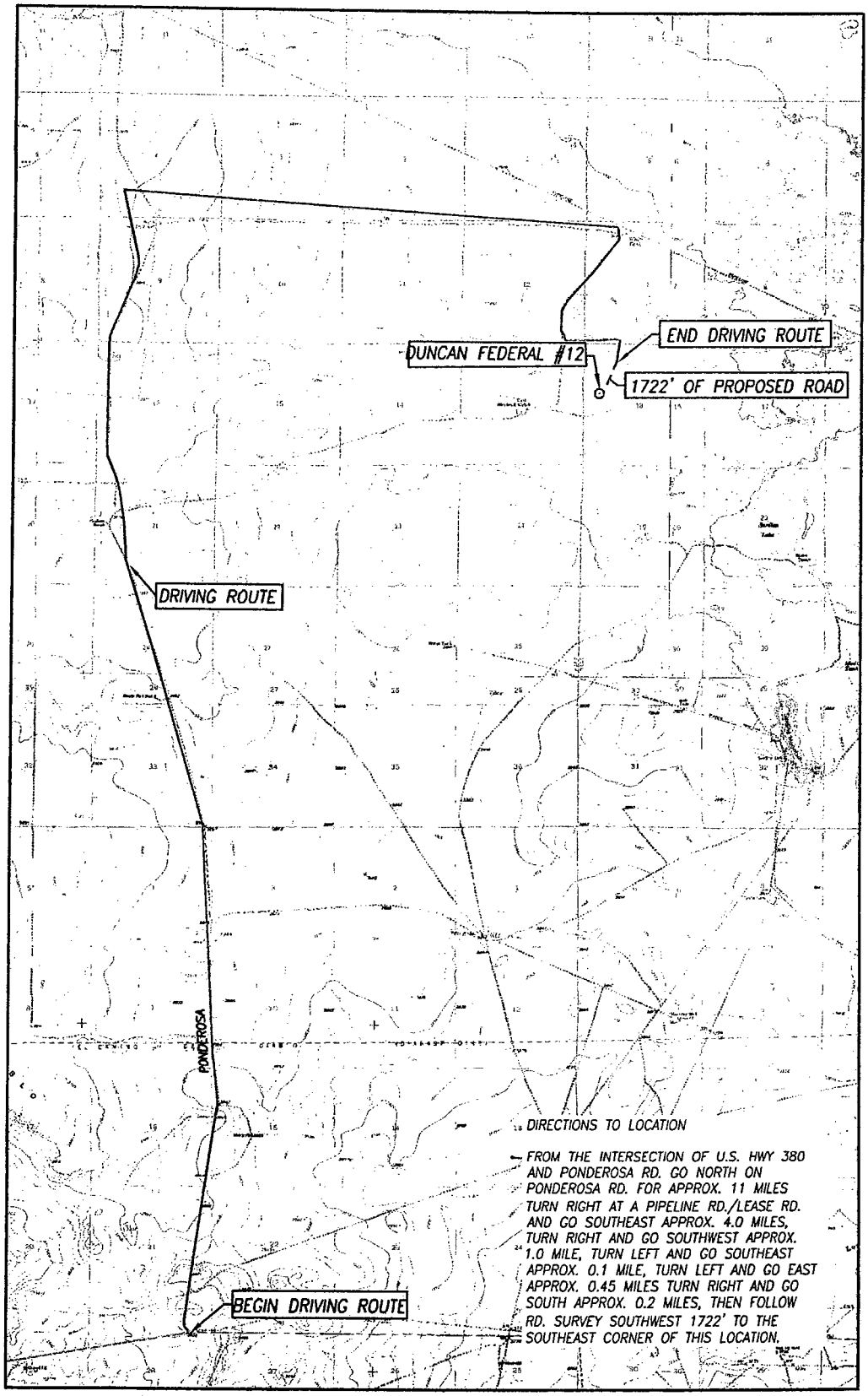


Legend

- Aggregates Etc.
- Clay & Shale / Brick
- Coal
- Gypsum
- Humate
- Limestone
- Metals
- Other
- Perlite
- Potash
- Pumice
- Salt
- Scoria
- Travertine
- Zeolites

EXHIBIT D

LOCATION VERIFICATION MAP



SEC. 18 TWP. 9-S RGE. 28-E
COUNTY CHAVES STATE NEW MEXICO
DESCRIPTION 2145' FNL & 694' FWL
ELEVATION 3872'
OPERATOR JALAPENO CORPORATION
LEASE DUNCAN FEDERAL
U.S.G.S. TOPOGRAPHIC MAP
CAMPBELL, N.M. SURVEY N.M.P.M.

SCALE: 1" = 5280'

CONTOUR INTERVAL:
CAMPBELL, N.M. – 10'

PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO HOBBS, N.M. 88240
(575) 393-3117 www.jwsc.biz
TBPLS# 10021000

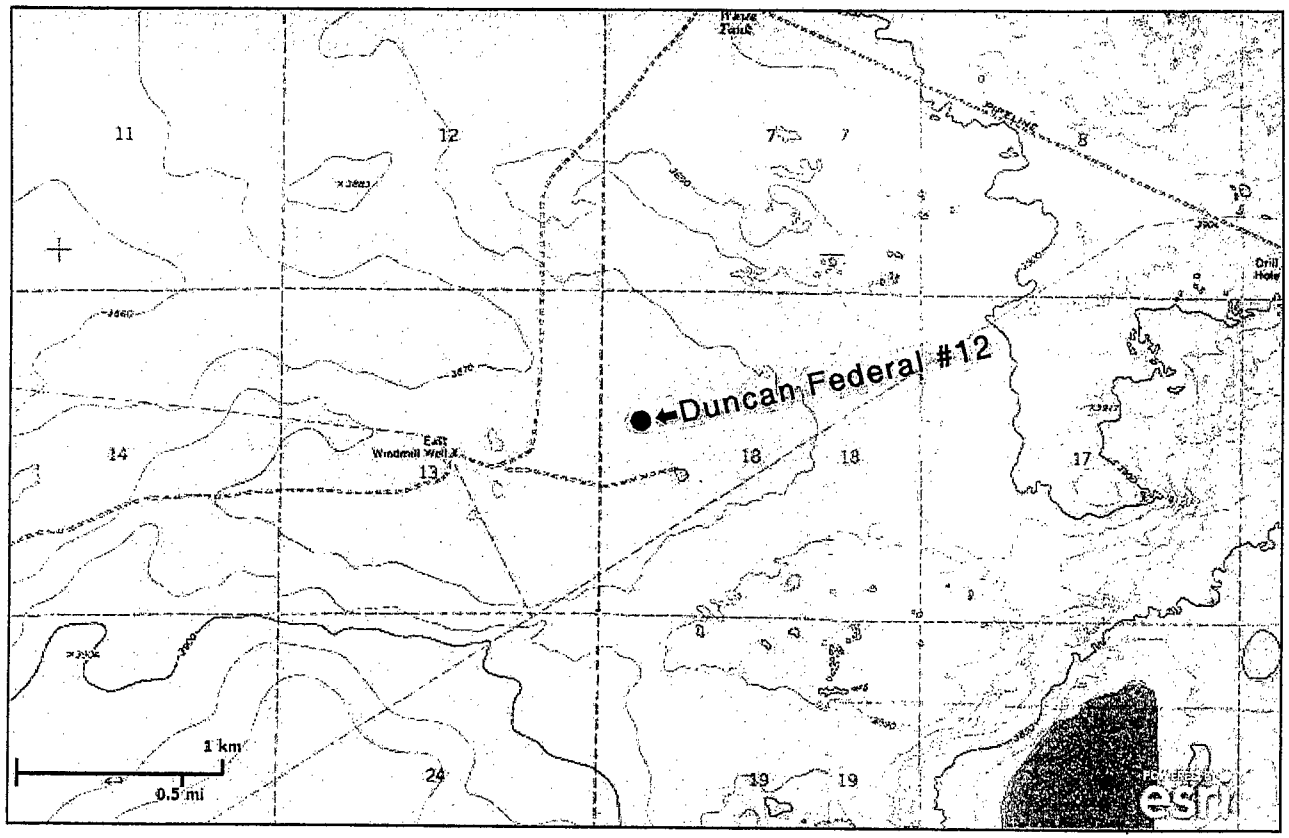
EXHIBIT E

U.S. Fish and Wildlife Service

National Wetlands Inventory

Duncan Federal #12

Oct 27, 2014



Wetlands

- Freshwater Emergent
- Freshwater Forested/Shrub
- Estuarine and Marine Deepwater
- Estuarine and Marine
- Freshwater Pond
- Lake
- Riverine
- Other

Riparian

- Herbaceous
- Forested/Shrub

Riparian Status

- Digital Data

This map is for general reference only. The US Fish and Wildlife Service is not responsible for the accuracy or currentness of the base data shown on this map. All wetlands related data should be used in accordance with the layer metadata found on the Wetlands Mapper web site.

User Remarks:

EXHIBIT F

New Mexico Office of the State Engineer

Water Column/Average Depth to Water

(A CLW##### in the POD suffix indicates the POD has been replaced & no longer serves a water right file.)

(R=POD has been replaced, O=orphaned, C=the file is closed)

(quarters are 1=NW 2=NE 3=SW 4=SE)
(quarters are smallest to largest)

(NAD83 UTM in meters)

(In feet)

POD Number	POD Sub-basin	County	Q 64	Q 16	Q 4	Sec	Twn	Rng	X	Y	Distance	Depth Well	Depth Water	Water Column
RA 09732		CH			1	22	08S	28E	585283	3719179*	9728	922	600	322

Average Depth to Water: **600 feet**

Minimum Depth: **600 feet**

Maximum Depth: **600 feet**

Record Count: 1

UTMNAD83 Radius Search (in meters):

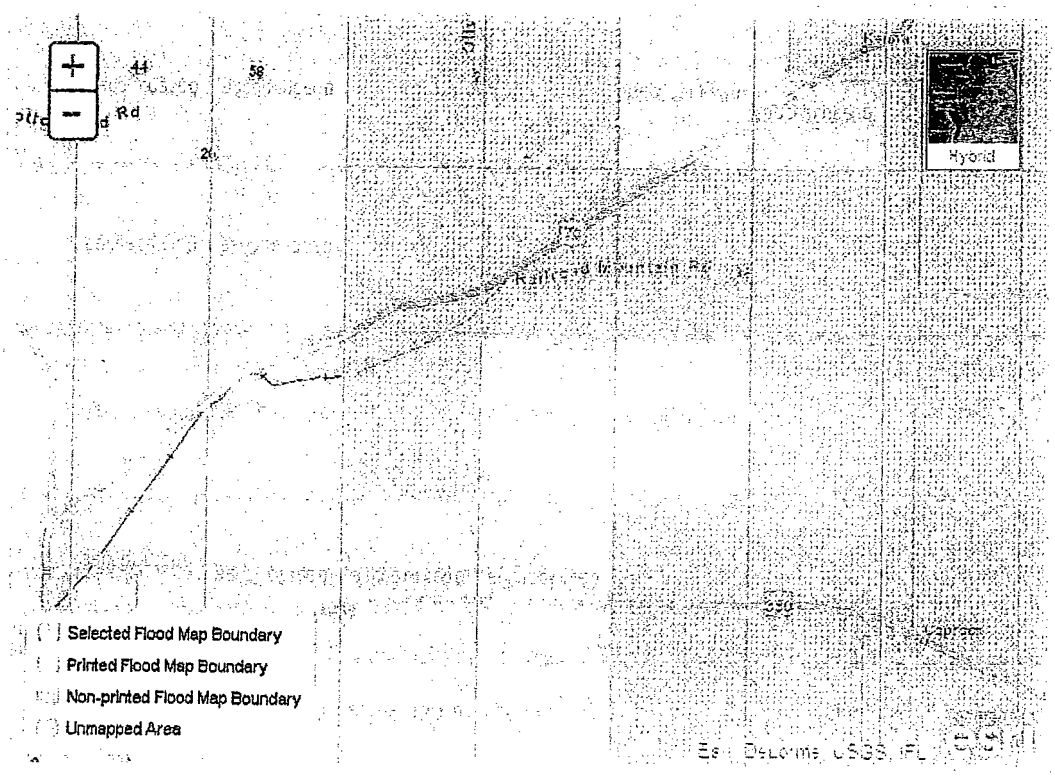
Easting (X): 580350 Northing (Y): 3710794 Radius: 10000

Nearest water well to Duncan Fed. #12

9728 meters = 6.0446989 miles

***UTM location was derived from PLSS - see Help**

EXHIBIT G


Hybrid
Railroad Mountain Rd
Selected Flood Map Boundary
Printed Flood Map Boundary
Non-printed Flood Map Boundary
Unmapped Area

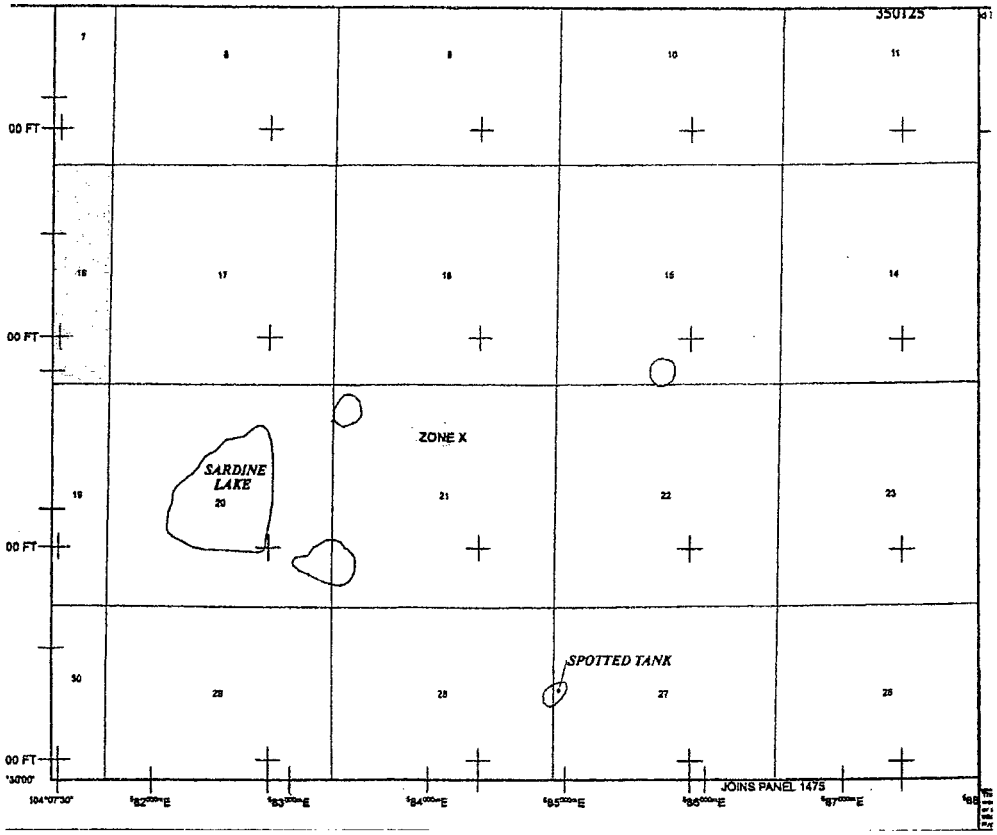
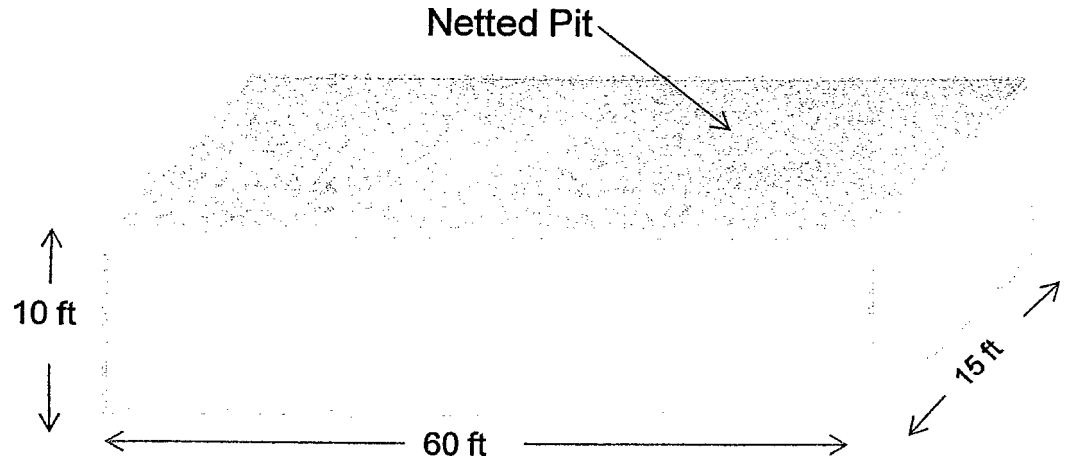

350125
ZONE X
SARDINE LAKE
SPOTTED TANK
JOINS PANEL 1475

EXHIBIT H

JALAPENO CORPORATION

DUNCAN FEDERAL #12



*NOT TO SCALE

SEC. 18 TWP. 09S RGE. 28E
COUNTY CHAVES STATE NEW MEXICO
DESCRIPTION 2145 FNL & 694 FWL

PECOS DISTRICT
CONDITIONS OF APPROVAL

OPERATOR'S NAME:	Jalapeno Corporation - , Emmons Yates
LEASE NO.:	NMNM-12557
WELL NAME & NO.:	DUNCAN FEDERAL - 12
SURFACE HOLE FOOTAGE:	[2145] ' F [N] L [694] ' F [W] L
BOTTOM HOLE FOOTAGE:	[2145] ' F [N] L [694] ' F [W] L
LOCATION:	Section 018, T009. S., R 028 E., NMPM
COUNTY:	Chaves County, New Mexico

1. All construction, operation and reclamation actions shall follow the regulations found at 43 CFR 3160, the Onshore Oil and Gas Orders, the Notices to Lessees (NTLs), and the Conditions of Approval (COAs).

2. A complete copy of the approved APD and the COAs shall be kept on location for reference by inspectors.

3. CONTAINMENT DIKES:

All production facilities shall have a lined containment structure large enough to contain 110% of the largest Tank plus 24 hours of production, unless more stringent protective requirements are deemed necessary by the Authorized Officer. (43 CFR 3162.5-1)

4. WELL PAD SURFACING:
Surfacing of the well pad is not required. If the operator elects to surface the well pad, final reclamation will include removal of all the surfacing material. The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational need.

5. ROAD SURFACING:
Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, final reclamation will include removal of the surfacing material. Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may contain standing water. The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

6. PIPELINE PROTECTION REQUIREMENT:
Precautionary measures shall be taken by the operator during construction of the access road to protect existing pipelines that the access road will cross over. An earthen berm; 2 feet high by 3 feet wide and 14 feet across the access road travelway (2' X 3' X 14'), shall be constructed over

The operator and contractors shall ensure that all use, production, storage, transportation and disposal of hazardous materials, solid wastes and hazardous wastes associated with the drilling, completion and production of this well will be in accordance with all applicable existing or hereafter promulgated federal, state and local government rules, regulations and guidelines. All project related activities involving hazardous materials will be conducted in a manner to minimize potential environmental impacts. A file will be maintained onsite containing current Safety Data Sheets (SDS) for all chemicals, compounds and/or substances which are used in the course of construction, drilling, completion and production operations.

11. DRILLING:
DRILLING OPERATIONS REQUIREMENTS:

A. The BLM is to be notified a minimum of 24 hours in advance for a representative to witness:
   - Spudding well,
   - Setting and/or Cementing of all casing strings,
   - BOPE tests.

The Roswell Field Office Engineer on-call phone number is: (575) 627-0205.

B. A Hydrogen Sulfide (H2S) Drilling Operation Contingency Plan shall be activated prior to drilling into the Queen formation. A copy of the plan shall be posted at the drilling site.

C. 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.

D. Include the API Number assigned to well by NMOCD on the subsequent report of setting the first casing string.

E. The operator will accurately measure the drilling rate in feet/min to set the base of the usable water protection casing string(s) opposite competent rock. The record of the drilling rate along with the caliper-gamma ray-neutron well log run to surface will be submitted to this office as well as all other logs run on the borehole 30 days from completion.

F. Air, air-mist or fresh water and nontoxic drilling mud shall be used to drill to the base of the usable water protection casing string(s). Any polymers used will be water based and non-toxic.

CASING:

A. Deepest depth of usable water occurs at an approximate depth of 400 feet. The operator will run 40 feet of conductor pipe and ready mix cement to the surface. The 8-5/8 inch usable water protection casing string(s) shall be set in competent bedrock above the top of the salt between 400 feet and 420 feet.

   - If cement does not circulate to the surface, the Roswell Field Office shall be notified and a temperature survey utilizing an electronic type temperature survey with a

- All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test will be submitted to the BLM Roswell Field Office at 2909 West Second Street, Roswell, New Mexico 88201.

- 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.

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

- The requested variance to test the BOPE prior to drilling below the 8-5/8 inch surface casing to the reduced pressure of 2000 psi by a third party is approved.

12. RECLAMATION:

Reclamation earthwork for interim and final reclamation shall be completed within 6 months of well completion or well plugging (weather permitting), and shall consist of:

A. Backfilling pits,
B. Re-contouring and stabilizing the well site, access road, cut/fill slopes, drainage channels, utility and pipeline corridors, and all other disturbed areas, to the original contour, shape, function, and configuration.
C. Surface ripping to a depth of 18-24 inches deep on 18-24 inch centers to reduce compaction (prior to topsoil placement),
D. Final grading and replacement of all topsoil,
E. Seeding in accordance with reclamation portions of the APD and these COA's.

Any subsequent disturbance of interim reclamation shall be reclaimed within six (6) months by the same means described herein.

Prior to conducting interim reclamation, the operator is required to:

- Submit a Sundry Notice and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

- Contact BLM at least three (3) working days prior to conducting any interim reclamation activities and prior to seeding.

The removal of caliche is important to the success of re-vegetating the site. Removed caliche may be used in road repairs, fire walls or for building other roads and locations. In addition, in order to operate the well or complete work-over operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing re-vegetated areas for production or work-over operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be re-vegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

Use a certified noxious weed-free seed mixture. Use seed tested for viability and purity in accordance with State law(s) within nine months of purchase. Use a commercial seed mixture

texture. No topsoil shall be stripped when soils are moisture-saturated or frozen below the stripping depth.

C. Topsoil Storage:
Topsoil and vegetation shall be stored separately from subsoil, spoils pile, or other excavated material. It is the operator's responsibility to ensure that topsoil, caliche, spoils, or other surfacing materials are not mixed together. Topsoil, spoil materials, and other excavated material may be stored on opposite or adjacent sides of the well pad. If topsoil and spoils are stored on the same well pad side, they will be no closer than toe to toe. Overlapping of material is not permitted. Each material pile will be within 30 feet of the pad's side.

D. Topsoil Replacement
All topsoil will be used for reclamation. Any other use of topsoil is not permitted.

16. ON LEASE ACCESS ROADS:

The operator agrees to comply with the following conditions of approval to the satisfaction of the Authorized Officer, BLM.

The operator shall construct, operate, maintain, and terminate the facilities, improvements, and structures within the access road in strict conformity with the stipulations which are made part of the permit. Any relocation, additional construction, or use that is not in accord with the approved stipulations, shall not be initiated without the prior written approval of the Authorized Officer.

The operator shall conduct all activities associated with the construction, operation, and termination of the right-of-way within the authorized limits of the access road.

The operator shall permit free and unrestricted access for all lawful purposes except for those specific areas designated as restricted by the Authorized Officer to protect the public, wildlife, livestock, or facilities constructed within the access road.

The Authorized Officer reserves the right to administrative access to public lands involved and operator may provide Authorized Officer with keys or combinations to locked gates on private property needed to access involved public lands.

Construction-related traffic shall be restricted to routes approved by the Authorized Officer. New access roads or cross-country vehicle travel will not be permitted unless prior written approval is given by the Authorized Officer.

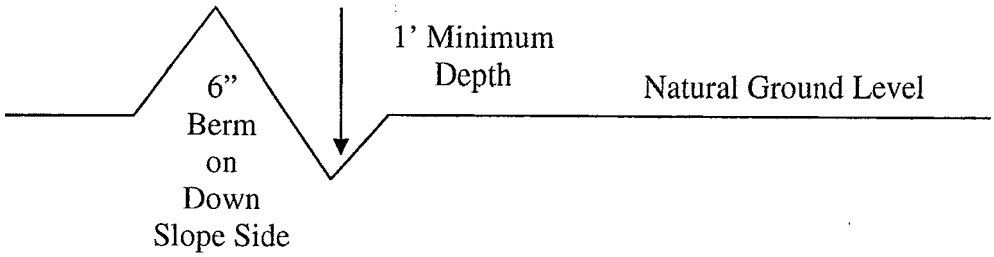
No construction or routine maintenance activities shall be performed during periods when the soil is too wet to adequately support construction equipment. If such equipment creates ruts in excess of three inches deep, the soil shall be deemed too wet to adequately support construction equipment.

The operator shall maintain the access road in a safe, usable condition, as directed by the Authorized Officer. (A regular maintenance program shall include, but is not limited to, blading, ditching, culvert installation and surfacing).

Construction sites shall be maintained in a sanitary condition at all times; waste materials at those sites shall be disposed of promptly at an appropriate waste disposal site. "Waste" means all

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.

Cross Section Of Typical Lead-off Ditch



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula For Spacing Interval Of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

400 foot road with 4% road slope: $\frac{400' + 100'}{4\%} = 200'$ lead-off ditch interval

Appropriately sized culvert(s) shall be installed at the deep waterway channel flow crossing.

Dust Abatement: The operator shall implement dust abatement measures as needed to prevent fugitive dust from vehicular traffic, equipment operations, or wind events. The BLM may direct the operator to change the level and type of treatment (watering or application of various dust agents, surfactants, and road surfacing material) if dust abatement measures are observed to be insufficient to prevent fugitive dust. All agents other than water must be approved by the Authorized Officer prior to use.

Erosion Control: Cut-and-fill slopes shall be protected against erosion with the use of water bars, lateral furrows, or other measures approved by the BLM. Cut-and-fill slopes along drainages or in areas with high erosion potential shall also be protected from erosion using hydro-mulch designed specifically for erosion control or biodegradable blankets/matting, bales, or wattles of weed-free straw or weed-free native grass hay. A well-anchored fabric silt fence shall also be placed at the toe of cut-and-fill slopes along drainages or to protect other sensitive areas from deposition of soils

SEED MIX FOR

Soil: Sotim-Simona association, moderately undulating
Ecological Site: Shallow Sand SD-3; Ecological Site: Sandy SD-3
March 19, 2001

Common Name and Preferred Variety	Scientific Name	Pounds of Pure Live Seed Per Acre
Black grama or Blue grama, var. Lovington	*(Bouteloua eriopoda)* *(Bouteloua gracilis)*	5.0
Sideoats grama var. Vaughn or El Reno	*(Bouteloua curtipendula)*	1.0
Sand dropseed *(Sporobolus cryptandrus)* or Mesa dropseed *(S. flexuosus)* or Spike dropseed *(S. contractus)*		0.5
Desert or Scarlet Globemallow	*(Sphaeralcea ambigua)* or *(S. coccinea)*	1.0
Croton	*(Croton* spp.)	1.0
TOTAL POUNDS PURE LIVE SEED PER ACRE		8.5

Certified Weed Free Seed. A minimum of 4 species is required, including 1 forb species.

IF ONE SPECIES IS NOT AVAILABLE,
INCREASE ALL OTHERS PROPORTIONATELY

DRILLING
CONDITIONS OF APPROVAL

OPERATOR'S NAME:	**Jalapeno Coporation**
LEASE NO.:	**NMNM-12557**
WELL NAME & NO.:	**Duncan Federal 12**
SURFACE HOLE FOOTAGE:	**2145' FNL & 0694' FWL**
LOCATION:	**Section 18, T. 09 S., R 28 E., NMPM**
COUNTY:	**Chavez County, New Mexico**

I. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

The BLM is to be notified in advance for a representative to witness:

a. Spudding well (minimum of 24 hours)
b. Setting and/or Cementing of all casing strings (minimum of 4 hours)
c. BOPE tests (minimum of 4 hours)
d. CIT test

☒ **Chaves and Roosevelt Counties**
Call the Roswell Field Office, 2909 West Second St., Roswell NM 88201.
During office hours call (575) 627-0272.
After office hours call (575) 627-0205.

1. **Although there are no measured amounts of Hydrogen Sulfide reported, it is always a potential hazard. If Hydrogen Sulfide is encountered, provide measured values and formations to the BLM.**

2. **The record of the drilling rate along with the GR/N well log run from TD to surface shall be submitted to the BLM office as well as all other logs run on the borehole 30 days from completion. If available, a digital copy of the logs is to be submitted in addition to the paper copies. The Rustler top and top and bottom of Salt are to be recorded on the Completion Report.**

B. CASING

Changes to the approved APD casing program need prior approval if the items substituted are of lesser grade or different casing size or are Non-API. The Operator can exchange the components of the proposal with that of superior strength (i.e. changing from J-55 to N-80, or from 36# to 40#). Changes to the approved cement program need prior approval if the altered cement plan has less volume or strength or if the changes are substantial (i.e. Multistage tool, ECP, etc.).

The initial wellhead installed on the well will remain on the well with spools used as needed.
Centralizers required on surface casing per Onshore Order 2.III.B.1.f.

Wait on cement (WOC) for Water Basin:
After cementing but before commencing any tests, the casing string shall stand cemented under pressure until both of the following conditions have been met: 1) cement reaches a minimum compressive strength of 500 psi at the shoe, 2) until cement has been in place at least 8 hours. WOC time will be recorded in the driller's log. See individual casing strings for details regarding lead cement slurry requirements.

Provide compressive strengths including hours to reach required 500 pounds compressive strength prior to cementing each casing string. Have well specific cement details onsite prior to pumping the cement for each casing string.

No pea gravel permitted for remedial or fall back remedial without prior authorization from the BLM engineer.

Medium Cave/Karst
Possibility of lost circulation in the San Andres.

A CIT is to be performed on the 13-3/8 inch casing per Onshore Oil and Gas Order 2.III.B.1.h prior to drilling the last shoe plug. Test casing to 1,500 psi.

1. The **8-5/8**" surface casing is set at **600** feet with cement circulated to surface.

2. The minimum required fill of cement behind the **5-1/2** inch production casing is:

   ☒ **Cement to surface**. If cement does not circulate, contact the appropriate BLM office. **Excess calculates to 6% - Additional cement may be required.**

3. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

C. PRESSURE CONTROL

1. All blowout preventer (BOP) and related equipment (BOPE) shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2 and API 53.

2. Jalapeno Corporation is granted a variance to use a cable tool rig.

3. Minimum working pressure of the blowout preventer (BOP) and related equipment (BOPE) required for drilling below the surface casing shoe shall be **2000 (2M)** psi.

4. The appropriate BLM office shall be notified a minimum of 4 hours in advance for a representative to witness the tests.

    a. In a water basin, for all casing strings utilizing slips, these are to be set as soon as the crew and rig are ready and any fallback cement remediation has been done. The casing cut-off and BOP installation can be initiated four hours after installing the slips, which will be approximately six hours after bumping the plug. For those casing strings not using slips, the minimum wait time before cut-off is eight hours after bumping the plug. BOP/BOPE testing can begin after cut-off or once cement reaches 500 psi compressive strength (including lead when specified), whichever is greater. However, if the float does not hold, cut-off cannot be initiated until cement reaches 500 psi compressive strength (including lead when specified).

    b. The tests shall be done by an independent service company utilizing a test plug **not a cup or J-packer**.

    c. The test shall be run on a 5000 psi chart for a 2-3M BOP/BOP, on a 10000 psi chart for a 5M BOP/BOPE and on a 15000 psi chart for a 10M BOP/BOPE. If a linear chart is used, it shall be a one hour chart. A circular chart shall have a maximum 2 hour clock. If a twelve hour or twenty-four hour chart is used, tester shall make a notation that it is run with a two hour clock.

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

    e. All tests are required to be recorded on a calibrated test chart. **A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.**

    f. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug. This test shall be performed prior to the test at full stack pressure.

D. DRILL STEM TEST

If drill stem tests are performed, Onshore Order 2.III.D shall be followed.

E. WASTE MATERIAL AND FLUIDS

All waste (i.e. drilling fluids, trash, salts, chemicals, sewage, gray water, etc.) created as a result of drilling operations and completion operations shall be safely contained and disposed of properly at a waste disposal facility. No waste material or fluid shall be disposed of on the well location or surrounding area.

Porto-johns and trash containers will be on-location during fracturing operations or any other crew-intensive operations.

JAM 040317

PECOS DISTRICT
CONDITIONS OF APPROVAL

OPERATOR'S NAME:	Jalapeno Corporation - , Emmons Yates
LEASE NO.:	NMNM-12557
WELL NAME & NO.:	DUNCAN FEDERAL - 12
SURFACE HOLE FOOTAGE:	[2145] ' F [N] L [694] ' F [W] L
BOTTOM HOLE FOOTAGE:	[2145] ' F [N] L [694] ' F [W] L
LOCATION:	Section 018, T009. S., R 028 E., NMPM
COUNTY:	Chaves County, New Mexico

1. All construction, operation and reclamation actions shall follow the regulations found at 43 CFR 3160, the Onshore Oil and Gas Orders, the Notices to Lessees (NTLs), and the Conditions of Approval (COAs).

2. A complete copy of the approved APD and the COAs shall be kept on location for reference by inspectors.

3. CONTAINMENT DIKES:

All production facilities shall have a lined containment structure large enough to contain 110% of the largest Tank plus 24 hours of production, unless more stringent protective requirements are deemed necessary by the Authorized Officer. (43 CFR 3162.5-1)

4. WELL PAD SURFACING:
Surfacing of the well pad is not required. If the operator elects to surface the well pad, final reclamation will include removal of all the surfacing material. The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational need.

5. ROAD SURFACING:
Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, final reclamation will include removal of the surfacing material. Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may contain standing water. The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

6. PIPELINE PROTECTION REQUIREMENT:
Precautionary measures shall be taken by the operator during construction of the access road to protect existing pipelines that the access road will cross over. An earthen berm; 2 feet high by 3 feet wide and 14 feet across the access road travelway (2' X 3' X 14'), shall be constructed over

existing pipelines. The operator shall be held responsible for any damage to existing pipelines. If the pipeline is ruptured and/or damaged the operator shall immediately cease construction operations and repair the pipeline. The operator shall be held liable for any unsafe construction operations that threaten human life and/or cause the destruction of equipment.

7. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized Officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values of the discovery. The operator shall be held responsible for the cost of the proper mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or paleontological resources may result in a shutdown order by the Authorized Officer.

8. VISUAL RESOURCE MANAGEMENT (VRM):

Through color manipulation, by painting well facilities to blend with the rolling to flat vegetative and/or landform setting with a gray-green color, the view is expected to favorably blend with the form, line, color and texture of the existing landscape. The flat color ***Oil Green*** from the Standard Environmental Supplemental Colors (March 2007) also closely approximates the grey to grey-green setting. All facilities, including the meter building, would be painted this color. The paint formula is 17-0115 TPX (Pantone for Architecture and Interior Colors Guide 2003).

9. CAVE AND KARST RESOURCES:

Any Cave or Karst feature discovered by the operator or by any person working on the operator's behalf shall immediately report the feature to the Authorized Officer. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. To mitigate or lessen the probability of impacts associated with the drilling and production of oil and gas wells in karst areas, the operator will follow the guidelines listed in Appendix 3 of the 1997 Roswell Resource Management Plan, as amended, Practices for Oil and Gas Drilling and Production in Cave and Karst Areas.

A more complete discussion of the impacts of oil and gas drilling can be found in the Dark Canyon Environmental Impact Statement of 1993, published by the U.S. Department of the Interior, Bureau of Land Management.

More information regarding protections to cave and karst resources can be found in the Federal Cave Resources Protection Act of 1988.

10. WASTES, HAZARDOUS AND SOLID:

Waste materials produced during all phases of operation will be disposed of promptly in an approved manner so it will not impact the air, soil, water, vegetation or animals. "Waste" means all discarded matter including, but not limited to, human waste, trash, garbage, refuse, oil drums, petroleum products, ashes and equipment. All liquid waste, completion fluids and drilling products associated with oil and gas operations will be contained and then removed and deposited in an approved disposal facility. Portable toilets will remain on site throughout well pad construction, drilling and reclamation.

The operator and contractors shall ensure that all use, production, storage, transportation and disposal of hazardous materials, solid wastes and hazardous wastes associated with the drilling, completion and production of this well will be in accordance with all applicable existing or hereafter promulgated federal, state and local government rules, regulations and guidelines. All project related activities involving hazardous materials will be conducted in a manner to minimize potential environmental impacts. A file will be maintained onsite containing current Safety Data Sheets (SDS) for all chemicals, compounds and/or substances which are used in the course of construction, drilling, completion and production operations.

11. RECLAMATION:

Reclamation earthwork for interim and final reclamation shall be completed within 6 months of well completion or well plugging (weather permitting), and shall consist of:

A. Backfilling pits,
B. Re-contouring and stabilizing the well site, access road, cut/fill slopes, drainage channels, utility and pipeline corridors, and all other disturbed areas, to the original contour, shape, function, and configuration.
C. Surface ripping to a depth of 18-24 inches deep on 18-24 inch centers to reduce compaction (prior to topsoil placement),
D. Final grading and replacement of all topsoil,
E. Seeding in accordance with reclamation portions of the APD and these COA's.

Any subsequent disturbance of interim reclamation shall be reclaimed within six (6) months by the same means described herein.

Prior to conducting interim reclamation, the operator is required to:

- Submit a Sundry Notice and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

- Contact BLM at least three (3) working days prior to conducting any interim reclamation activities and prior to seeding.

The removal of caliche is important to the success of re-vegetating the site. Removed caliche may be used in road repairs, fire walls or for building other roads and locations. In addition, in order to operate the well or complete work-over operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing re-vegetated areas for production or work-over operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be re-vegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

Use a certified noxious weed-free seed mixture. Use seed tested for viability and purity in accordance with State law(s) within nine months of purchase. Use a commercial seed mixture certified or registered and tagged in accordance with State law(s). Make the seed mixture labels available for BLM inspection.

12. SEE ATTACHED SEED MIX: The Ecological Site Description for the well pad and access road is as follows:

Well Name	Ecosite well pad
Duncan 12	Sandy SD-3

13. FINAL ABANDONMENT:

A. Upon abandonment of the well a Notice of Intent for Plug and Abandonment describing plugging procedures is required. Within 30 days of approval of the Notice you shall file with this office a Subsequent Report of Abandonment (Form 3160-5). To be included with this report is where the plugs were placed, volumes of cement used, and the well bore schematic as plugged.

B. On private surface/federal mineral estate land the reclamation procedures on the road and well pad shall be accomplished in accordance with the Private Surface Land Owner agreements and a copy of the release is to be submitted upon abandonment.

C. Upon abandonment of the well, all casing shall be cut-off at the base of the cellar or 3-feet below final restored ground level (whichever is deeper). The well bore shall then be covered with a metal plate at least ¼ inch thick and welded in place. The following information shall be permanently inscribed on the dry hole marker: Well name and number, the name of the operator, the lease serial number, the surveyed location (the quarter-quarter section, section, township and range or other authorized survey designation acceptable to the Authorized Officer; such as metes and bounds).

D. The operator shall promptly plug and abandon each newly completed, re-completed or producing well which is not capable of producing in paying quantities. No well may be temporarily abandoned for more than 30 days without prior approval from this office. When justified by the operator, BLM may authorize additional delays, no one of which may exceed an additional 12 months. Upon removal of drilling or producing equipment from the site of a well which is to be permanently abandoned, the surface of the lands disturbed shall be reclaimed in accordance with an approved Notice of Intent for reclamation.

14. TOPSOIL:

A. Construction:

When saturated soil conditions exist on access roads or location, construction shall be halted until soil material dries out or is frozen sufficiently for construction to proceed without undue damage and erosion to soils, roads and locations. The topsoil will not be used to construct the containment structures or earthen dikes that are on the outside boundaries of the constructed well pad, tanks, and storage facilities.

B. Topsoil Stripping and Vegetation Removal:

Topsoil shall be stripped and vegetation shall be removed during construction of well pads, pipelines, roads, or other surface facilities. This shall include all growth medium and at a minimum, the upper two to six inches of soil (if that depth of topsoil is present), but shall also include stripping of any additional topsoil present at a site, such as indicated by color or texture. No topsoil shall be stripped when soils are moisture-saturated or frozen below the stripping depth.

C. Topsoil Storage:
Topsoil and vegetation shall be stored separately from subsoil, spoils pile, or other excavated material. It is the operator's responsibility to ensure that topsoil, caliche, spoils, or other surfacing materials are not mixed together. Topsoil, spoil materials, and other excavated material may be stored on opposite or adjacent sides of the well pad. If topsoil and spoils are stored on the same well pad side, they will be no closer than toe to toe. Overlapping of material is not permitted. Each material pile will be within 30 feet of the pad's side.

D. Topsoil Replacement
All topsoil will be used for reclamation. Any other use of topsoil is not permitted.

15. ON LEASE ACCESS ROADS:

The operator agrees to comply with the following conditions of approval to the satisfaction of the Authorized Officer, BLM.

The operator shall construct, operate, maintain, and terminate the facilities, improvements, and structures within the access road in strict conformity with the stipulations which are made part of the permit. Any relocation, additional construction, or use that is not in accord with the approved stipulations, shall not be initiated without the prior written approval of the Authorized Officer.

The operator shall conduct all activities associated with the construction, operation, and termination of the right-of-way within the authorized limits of the access road.

The operator shall permit free and unrestricted access for all lawful purposes except for those specific areas designated as restricted by the Authorized Officer to protect the public, wildlife, livestock, or facilities constructed within the access road.

The Authorized Officer reserves the right to administrative access to public lands involved and operator may provide Authorized Officer with keys or combinations to locked gates on private property needed to access involved public lands.

Construction-related traffic shall be restricted to routes approved by the Authorized Officer. New access roads or cross-country vehicle travel will not be permitted unless prior written approval is given by the Authorized Officer.

No construction or routine maintenance activities shall be performed during periods when the soil is too wet to adequately support construction equipment. If such equipment creates ruts in excess of three inches deep, the soil shall be deemed too wet to adequately support construction equipment.

The operator shall maintain the access road in a safe, usable condition, as directed by the Authorized Officer. (A regular maintenance program shall include, but is not limited to, blading, ditching, culvert installation and surfacing).

Construction sites shall be maintained in a sanitary condition at all times; waste materials at those sites shall be disposed of promptly at an appropriate waste disposal site. "Waste" means all discarded matter including, but not limited to, human waste, trash, garbage, refuse, oil drums, petroleum products, ashes, and equipment.

The operator(s) shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the operator(s) shall comply with (40 CFR, Part 702-799), (40 CFR 761.1-761.193), (40 CFR, Part 117), Comprehensive Environmental Response, Compensation and Liability Act of 1980, Section 102b, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, (42 U.S.C. 9601, et seq.) and the Resource Conservation and Recovery Act of 1976, 42 U.S.C. 6901 et seq.)

Prior to termination, the operator shall contact the Authorized Officer to arrange a joint inspection of the access road. This inspection will be held to agree to an acceptable termination (and rehabilitation) plan. This plan shall include, but is not limited to, removal of facilities, drainage structures, or surface material, re-contouring, top soiling, or seeding. The Authorized Officer must approve the plan in writing prior to the operator's commencement of any termination activities.

Where possible, no improvements should be made on the reclaimed portions of the access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

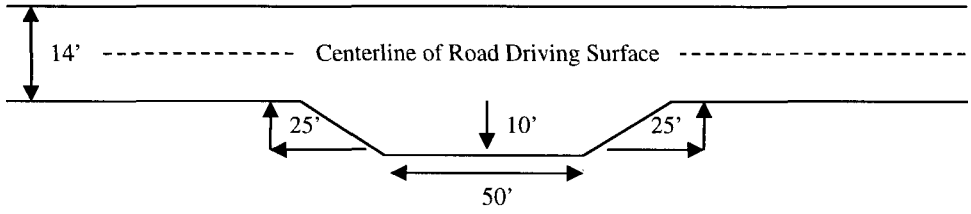
The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

The access road shall have a driving surface that creates the smallest possible surface disturbance and does not exceed fourteen (14) feet in width. The maximum width of surface disturbance, when constructing the access road, shall not exceed thirty (30) feet.

Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

Vehicle turnouts shall be constructed on the road. Turnouts shall be intervisible with interval spacing distance less than 1000 feet. Turnouts shall be constructed on all blind curves. Turnouts shall conform to the following diagram:

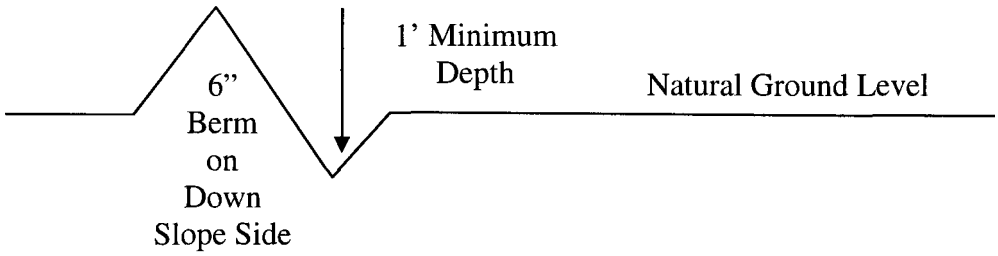
Standard Turnout – Plan View



Drainage control systems shall be constructed on the entire length of road (e.g. ditches, side- hill, out-sloping and in-sloping, lead-off ditches, culvert installation, and low water crossings).

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.

Cross Section Of Typical Lead-off Ditch



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula For Spacing Interval Of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

400 foot road with 4% road slope: $\frac{400' +}{4\%}$ 100' = 200' lead-off ditch interval

Appropriately sized culvert(s) shall be installed at the deep waterway channel flow crossing.

Dust Abatement: The operator shall implement dust abatement measures as needed to prevent fugitive dust from vehicular traffic, equipment operations, or wind events. The BLM may direct the operator to change the level and type of treatment (watering or application of various dust agents, surfactants, and road surfacing material) if dust abatement measures are observed to be insufficient to prevent fugitive dust. All agents other than water must be approved by the Authorized Officer prior to use.

Erosion Control: Cut-and-fill slopes shall be protected against erosion with the use of water bars, lateral furrows, or other measures approved by the BLM. Cut-and-fill slopes along drainages or in areas with high erosion potential shall also be protected from erosion using hydro-mulch designed specifically for erosion control or biodegradable blankets/matting, bales, or wattles of weed-free straw or weed-free native grass hay. A well-anchored fabric silt fence shall also be placed at the toe of cut-and-fill slopes along drainages or to protect other sensitive areas from deposition of soils eroded off the slopes. Additional Best Management Practices (BMPs) shall be employed as necessary to reduce soil erosion and offsite transport of sediments.

SEED MIX FOR

Soil: Sotim-Simona association, moderately undulating
Ecological Site: Shallow Sand SD-3; Ecological Site: Sandy SD-3
March 19, 2001

Common Name and Preferred Variety	Scientific Name	Pounds of Pure Live Seed Per Acre
Black grama or Blue grama, var. Lovington	*(Bouteloua eriopoda)* *(Bouteloua gracilis)*	5.0
Sideoats grama var. Vaughn or El Reno	*(Bouteloua curtipendula)*	1.0
Sand dropseed or Mesa dropseed or Spike dropseed	*(Sporobolus cryptandrus)* *(S. flexuosus)* *(S. contractus)*	0.5
Desert or Scarlet Globemallow	*(Sphaeralcea ambigua)* or *(S. coccinea)*	1.0
Croton	*(Croton* spp.)	1.0
TOTAL POUNDS PURE LIVE SEED PER ACRE		8.5

Certified Weed Free Seed. A minimum of 4 species is required, including 1 forb species.

IF ONE SPECIES IS NOT AVAILABLE,
INCREASE ALL OTHERS PROPORTIONATELY

Conditions of Approval

PALEONTOLOGICAL RESOURCES

If previously undocumented paleontological sites are encountered during construction, the project proponent will immediately stop all construction activities in the immediate vicinity of the discovery. The proponent with then immediately notify the paleontological monitor (if required), or the BLM/RFO paleontology resource staff. It is necessary to protect fossil material and their geological context upon discovered during construction. The BLM would then evaluate the site. Should the discovery be evaluated as significant, it will be protected in place until mitigation measures can be developed and implemented according to guidelines set by the BLM. Mitigation measures such as data and fossil recovery may be required by the BLM to prevent impacts to newly identified paleontological resources.

FEDERAL MINERAL MATERIALS PIT:

The well pads and access roads have been constructed. If additional material is needed and the material is Federal minerals, a permit will be processed and payment shall be made to the BLM prior to removal. Call the Roswell Field Office (575) 627-0270.

WASTES, HAZARDOUS AND SOLID

Waste materials produced during all phases of operation will be disposed of promptly in an approved manner so it will not impact the air, soil, water, vegetation or animals. "Waste" means all discarded matter including, but not limited to, human waste, trash, garbage, refuse, oil drums, petroleum products, ashes and equipment. All liquid waste, completion fluids and drilling products associated with oil and gas operations will be contained and then removed and deposited in an approved disposal site. Portable toilets will remain on site throughout well pad construction, drilling and reclamation.

The operator and contractors shall ensure that all use, production, storage, transportation and disposal of hazardous materials, solid wastes and hazardous wastes associated with the drilling, completion and production of this well will be in accordance with all applicable existing or hereafter promulgated federal, state and local government rules, regulations and guidelines. All project related activities involving hazardous materials will be conducted in a manner to minimize potential environmental impacts. A file will be maintained onsite containing current Safety Data Sheets (SDS) for all chemicals, compounds and/or substances which are used in the course of construction, drilling, completion and production operations.