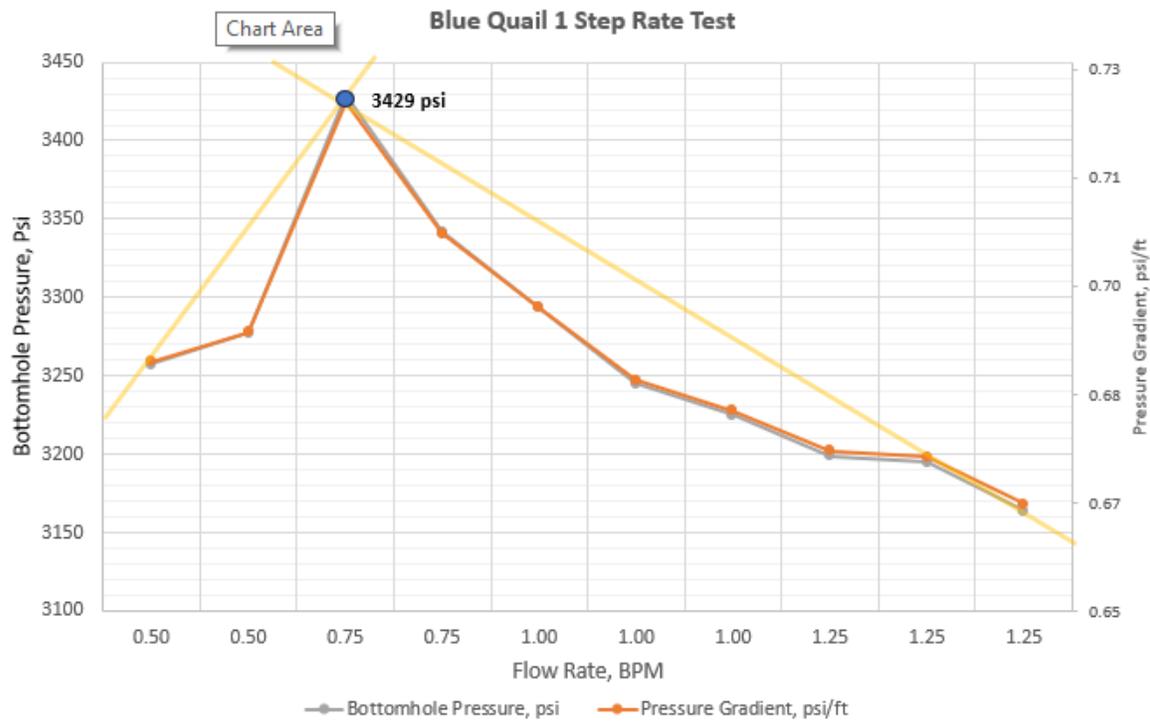


Million,

Foundation's interpretation of the step rate test results on the Blue Quail #1 are that at a bottomhole pressure of ~3400 psi (or a gradient of ~0.72 psi/ft) we reached the formation's parting pressure. This gradient is consistent with the results seen during historical hydraulic fracturing operations in geologically similar formations within this field and is around what we expected to see. While Foundation acknowledges that our results do not match a typical step rate test's slope, we believe the results are merely a function of fluid loss to another sand within our injection interval. Since our injection interval consists of multiple sand intervals, we believe the declining bottomhole injection pressure is lost fluid to another sand once parting pressure was reached. With a substantial permeability barrier above the permitted injection interval, we have strong evidence to support the confinement of water within our injection interval. In addition, the fracture gradient determined during our test is consistent with history of the field, and the fact that we will be injecting well below this point while using the well as an SWD, Foundation believes that the data captured during the step rate test is sufficient to make a final determination of this well's maximum injection pressure.

Foundation expected to reach this breakover pressure at a higher injection rate, and as such we did not have an injection pump on location capable of pumping slow enough to capture the required 3 injection rates below this breakover pressure was reached. However, we believe that a sufficient enough trend was established for the necessary conclusions to be drawn.



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**State of New Mexico**  
**Energy, Minerals and Natural Resources**  
**Oil Conservation Division**  
**1220 S. St Francis Dr.**  
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CONDITIONS

Action 300093

**CONDITIONS**

Operator: FOUNDATION ENERGY MANAGEMENT, LLC 5057 KELLER SPRINGS RD ADDISON, TX 75001	OGRID: 370740
	Action Number: 300093
	Action Type: [C-103] Sub. General Sundry (C-103Z)

**CONDITIONS**

Created By	Condition	Condition Date
mgebremichael	None	1/4/2024