

RECEIVED
DEC 11 2012
NMOGD ARTESIA

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0137
Expires July 31, 2010

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No. NMLC-029418B **709**
6. If Indian, Allottee or Tribe Name N/A **12/11/2012**

1a. Type of work: DRILL REENTER
1b. Type of Well: Oil Well Gas Well Other Single Zone Multiple Zone

7. If Unit or CA Agreement, Name and No. N/A
8. Lease Name and Well No. LEA C FEDERAL 17 **<39579>**

2. Name of Operator CAPSTONE NATURAL RESOURCES, LLC **5289372 >**

9. API Well No. 30-015- **40879**

3a. Address 200 NORTH LORRAINE, SUITE 1225
MIDLAND, TX 79701

3b. Phone No. (include area code)
432 218-7924

10. Field and Pool, or Exploratory **28509**
GRAYBURG JACKSON; SR-Q-G-SA

4. Location of Well (Report location clearly and in accordance with any State requirements.)*
At surface 330' FSL & 330' FEL
At proposed prod. zone SAME

11. Sec., T. R. M. or Blk. and Survey or Area
SESE-11-17S-31E NMPM

14. Distance in miles and direction from nearest town or post office*
4 AIR MILES SW OF MALJAMAR, NM

12. County or Parish EDDY
13. State NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 330'

16. No. of acres in lease 1,200

17. Spacing Unit dedicated to this well SESE

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 466' (Lea C Federal 13)

19. Proposed Depth 4,500'

20. BLM/BIA Bond No. on file NMB000879

21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3,942' UNGRADED

22. Approximate date work will start* 09/15/2012

23. Estimated duration 3 WEEKS

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 *[Signature]* Name (Printed/Typed) BRIAN WOOD (505 466-8120) Date 08/05/2012
Title CONSULTANT (FAX 505 466-9682)

Approved by (Signature) */s/ Don Peterson* Name (Printed/Typed) Date DEC 5 2012
Title FIELD MANAGER Office CARLSBAD 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. **APPROVAL FOR TWO YEARS**

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)

Roswell Controlled Water Basin

Approval Subject to General Requirements & Special Stipulations Attached

Must be in compliance w/ NMOCs Rule 5.9 prior to producing well

SEE ATTACHED FOR CONDITIONS OF APPROVAL

DISTRICT I
1625 N. French Dr., Hobbs, NM 88240
Phone: (575) 393-6161 Fax: (575) 393-6720

DISTRICT II
811 S. First St., Artesia, NM 88210
Phone: (575) 748-1283 Fax: (575) 748-9720

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3469 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 30-015- 40879	Pool Code 28509	Pool Name GRAYBURG JACKSON; SR-Q-G-SA
Property Code 20880 39579	Property Name LEA C FEDERAL	Well Number 17
OGRID No. 289372	Operator Name CAPSTONE NATURAL RESOURCES, LLC	Elevation 3942'

Surface Location

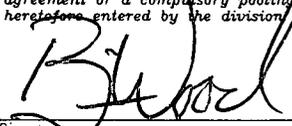
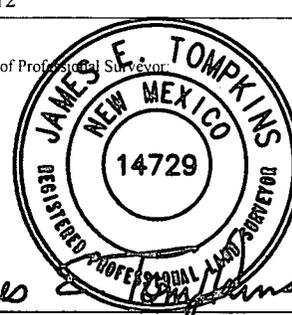
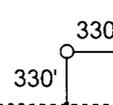
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
P	11	17 S	31 E		330	SOUTH	330	EAST	EDDY

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 40	Joint or Infill	Consolidated Code	Order No.
-----------------------	-----------------	-------------------	-----------

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	
				<p><i>I hereby certify that the information contained 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 a mineral or working interest, or to voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i></p>	
				 Signature	8-5-12 Date
				Print Name Brian Wood E-mail Address brian@permitswest.com	
				SURVEYORS CERTIFICATION	
				<p><i>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.</i></p>	
				JUNE 27, 2012 Date of Survey	
				Signature and Seal of Professional Surveyor  	
LEA C FEDERAL 17 SHL NMSP-E (NAD 83) Y = 670714.8' N X = 695067.4' E LAT. = N32° 50' 34.15" LONG. = W103° 49' 58.01" NMSP-E (NAD 27) Y = 670650.6' X = 653888.9' LAT. = N 32.842700648° LONG. = W 103.832274911°			330' 		
				Job No. WTC48591	
				JAMES E. TOMPKINS 14729	
				Certificate Number	

Capstone Natural Resources, LLC
Lea C Federal 17
330' FSL & 330' FEL
Sec. 11, T. 17 S., R. 31 E.
Eddy County, New Mexico

PAGE 11

REPRESENTATION

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 5th day of August, 2012.



Brian Wood, Consultant
Permits West, Inc.

37 Verano Loop, Santa Fe, NM 87508

(505) 466-8120

FAX: (505) 466-9682

Cellular: (505) 699-2276

Field representative will be:

Darren Seglem, Production Manager

Capstone Natural Resources, LLC

200 N. Lorraine, Suite 1225

Midland, TX 79701

(432) 218-7924: office & FAX

(432) 664-5477: cellular

Capstone Natural Resources, LLC
 Lea C Federal 17
 330' FSL & 330' FEL
 Sec. 11, T. 17 S., R. 31 E.
 Eddy County, New Mexico

Drilling Program

1. ESTIMATED TOPS

<u>Name</u>	<u>GL Depth</u>	<u>KB Depth</u>	<u>Elevation</u>
Quaternary sand	0'	10'	+3,942'
Rustler anhydrite	627'	637'	+3,315'
Salado salt top	802'	812'	+3,140'
bottom Salado	1,772'	1,782'	+2,170'
Yates	1,957'	1,967'	+1,985'
Seven Rivers	2,292'	2,302'	+1,650'
Queen	2,912'	2,922'	+1,030'
Grayburg	3,342'	3,352'	+600'
San Andres	3,697'	3,707'	+245'
Total Depth	4,500'	4,510'	-558'

2. NOTABLE ZONES

<u>Gas or Oil Zones</u>	<u>Water Zone</u>	<u>Mineral Zone</u>
Grayburg	Quaternary	anhydrite
San Andres		salt

Water zones will be protected with casing, cement, and weighted mud. Fresh water found while drilling will be recorded.

3. PRESSURE CONTROL (see PAGES 3 – 5)

A 2,000 psi BOP stack and manifold system will be used. A typical 2,000 system is shown on PAGE 3. If the equipment changes, then a Sundry Notice will be filed. System will meet Onshore Orders 2 (BOP) and 6 (H₂S) requirements.

Capstone Natural Resources, LLC
Lea C Federal 17
330' FSL & 330' FEL
Sec. 11, T. 17 S., R. 31 E.
Eddy County, New Mexico

PAGE 2

BOP and choke manifold will be installed and pressure tested before drilling out of the surface casing. Subsequent pressure tests will be performed whenever the pressure seals are broken. BOP and manifold mechanical operating conditions will be checked daily. BOP will be tested at least once every 30 days.

See COA [Ram type preventers and related pressure control equipment will be pressure tested to the working pressure of the stack if a test plug is used. If a plug is not used, then the stack will be tested to the rated working pressure of the stack or 70% of the minimum internal yield of the casing, whichever is less. Annular type preventers will be pressure tested to 50% of their working pressure. All casing strings will be pressure tested to 0.22 psi/foot or 1,500 psi, whichever is greater, not to exceed 70% of the internal yield.

A manual locking device (e. g., hand wheels) or automatic locking devices will be installed on the BOP stack. Remote controls capable of both opening and closing all preventers will be readily accessible to the driller.

Choke manifold and accumulator will meet or exceed BLM standards. BOP equipment will be tested after any repairs. Pipe and blind rams and annular preventer will be activated on each trip. Weekly BOP drills will be conducted with each crew. All tests, maintenance, and BOP drills will be recorded on the rig tower sheets.

Auxiliary equipment will include:

- upper kelly cock, lower kelly cock will be installed while drilling
- inside BOP or stabbing valve with handle available on rig floor
- safety valve(s) and subs to fit all string connections in use
- electronic/mechanical mud monitor will with a minimum pit volume totalizer; stroke counter; flow sensor

Capstone Natural Resources, LLC
 Lea C Federal 17
 330' FSL & 330' FEL
 Sec. 11, T. 17 S., R. 31 E.
 Eddy County, New Mexico

4. CASING & CEMENT

<i>See COA</i>	Hole Size	O. D.	Weight (lb/ft)	Grade	Age	Connection	Set Depth
	26.0"	20"	conductor		New		40'
	12.25"	8.625"	24	J-55	New	ST & C	≈775' 700'
	7.875"	5.5"	17	J-55	New	ST & C	4,500'

The casing design factors are: collapse = 1.25, burst = 1.0, yield = 1.5, joint strength 8-R = 1.8, buttress = 1.6, tension dry = 1.6, & tension buoyant = 1.8.

Conductor pipe will be cemented to the surface with ready mix.

Surface casing will be set in a competent bed below the Magenta dolomite (part of the Rustler), but at least 25' above the salt (estimated salt top = 802').

Surface casing will be cemented to the surface with >100% excess. Lead with 250 sacks (532 cubic feet) 35:65 poz Class C + additives (5% bwow NaCl₂ + 0.25% bwoc cello flake + 5 #/sack LCM-1 + 0.005 gps FP-6L + 1% bwoc sodium metasilicate + 0.25% bwoc FL+ 52A + 5% bwoc MPA-5 + 4% bentonite) mixed to yield 2.13 cubic feet per sack and 12.5 pounds per gallon. Tail with 100 sacks (134 cubic feet) Class C + 2% CaCl₂ + 0.005 gps FP-6L mixed to yield 1.34 cubic feet per sack and 13.5 pounds per gallon. Total cement = 636 cubic feet.

Production casing will be cemented to the surface with 100% excess. Lead with 500 sacks (1,230 cubic feet) 50:50 poz Class C + additives (5% bwow NaCl₂ + 0.125 #/sack cello flake + 5 #/sack LCM-1 + 0.05% bwoc ASA-301 + 0.005 gps FP-6L + 0.25 bwoc sodium metasilicate + 0.25 FL-52A + 10% bwoc bentonite II) mixed to yield 2.46 cubic feet per sack and 11.8 pounds per gallon. Tail with 250 sacks (325 cubic feet) 50:50 poz Class C + additives (5% bwow NaCl₂ + 0.4% bwoc FL-25 + 0.005 gps FP-6L + 0.2% bwoc sodium metasilicate + 2% bwoc bentonite II) mixed to yield 1.30 cubic feet per sack and 14.2 pounds per gallon. Total cement = 1,555 cubic feet.

Capstone Natural Resources, LLC
Lea C Federal 17
330' FSL & 330' FEL
Sec. 11, T. 17 S., R. 31 E.
Eddy County, New Mexico

PAGE 7

5. MUD PROGRAM

Will drill the surface hole with 8.4 to 8.7 pound fresh water spud mud and lost circulation material. Viscosity will be 29 to 32.

Production hole will be drilled with 10.1 to 10.2 pound brine. Saltwater gel will be added if the mud does not maintain sufficient viscosity (29 to 38). Lost circulation material and starch will be added as needed.

Enough mud material will be on site to maintain mud properties and control lost circulation or a kick.

6. CORES, TESTS, & LOGS

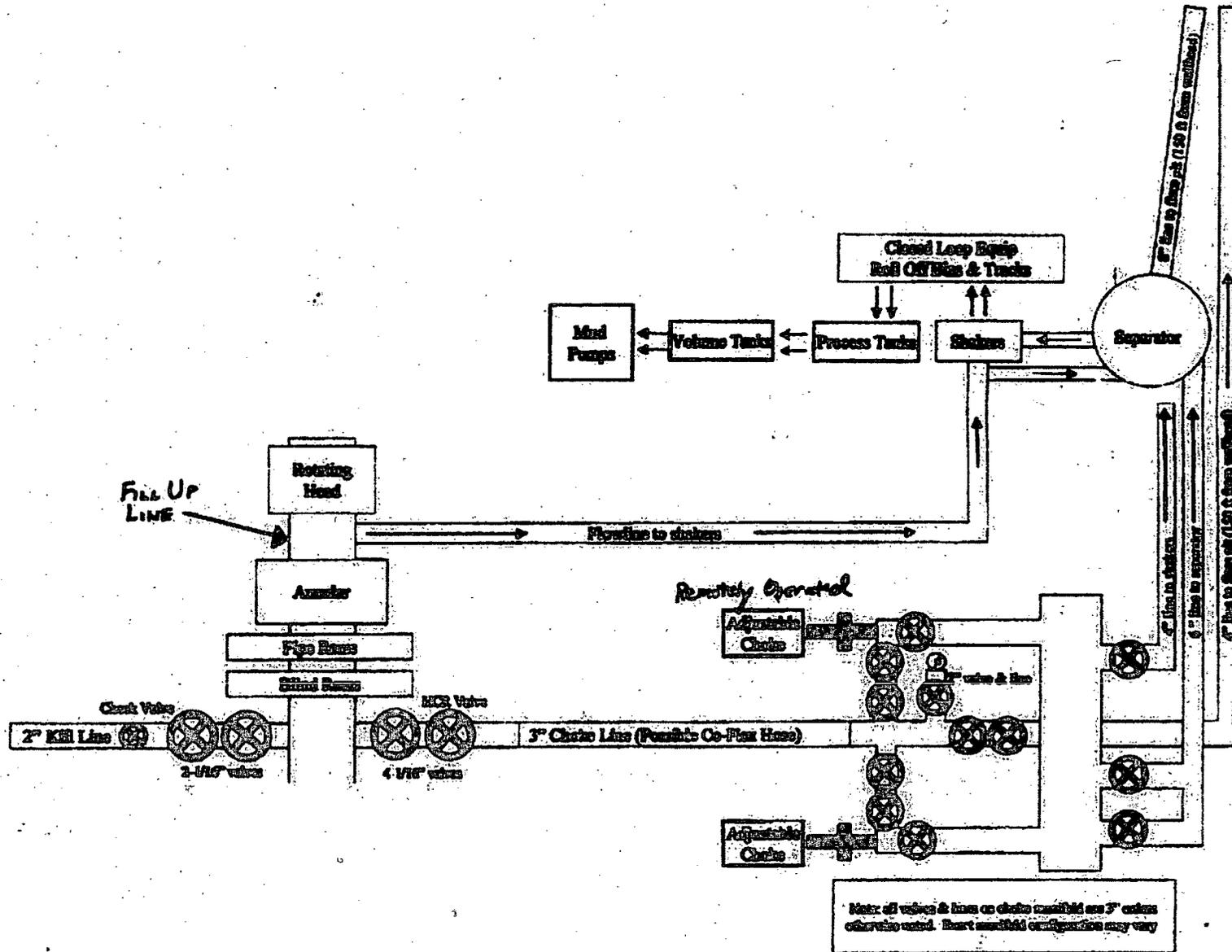
No core or drill stem test is planned. A mud logger will be on location after Capstone drills out of the surface casing. Cased hole gamma ray and CBL logs will be run from TD to the surface casing shoe. *See COA*

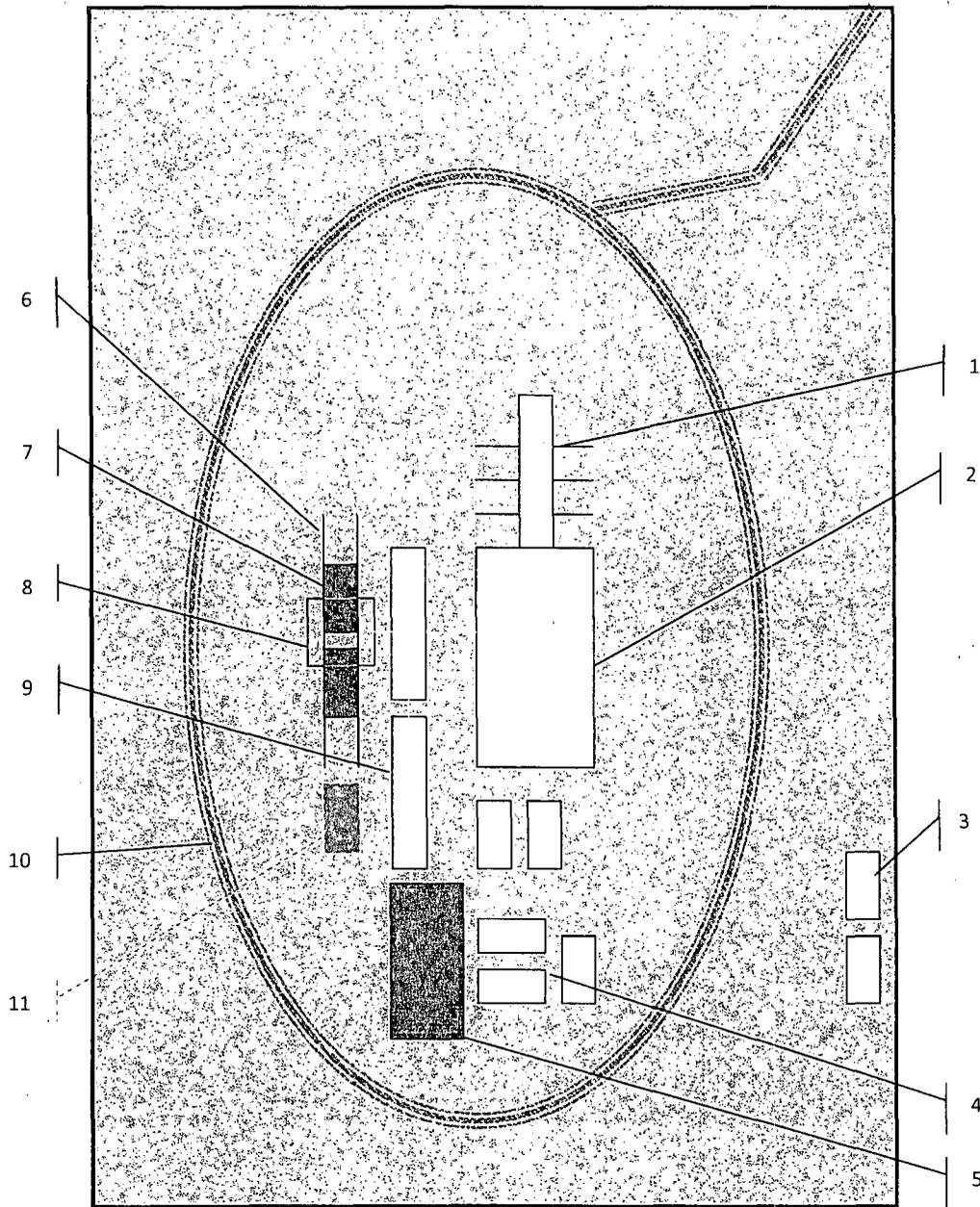
7. DOWN HOLE CONDITIONS

No abnormal pressure or temperature is expected. Hydrogen sulfide is expected in the Grayburg. H₂S monitoring equipment will be on the rig floor and air packs will be available 500' before the Grayburg is drilled. An H₂S drilling operations contingency plan is attached. Maximum expected bottom hole pressure will be ≈1,949 psi.

8. OTHER INFORMATION

The anticipated spud date is upon approval. It is expected it will take ≈1 week to drill and ≈2 weeks to complete the well.

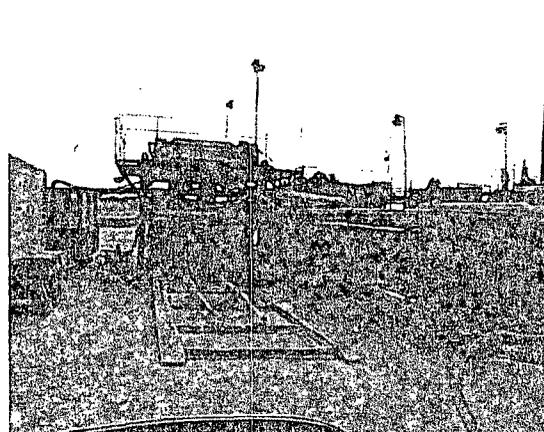




Schematic Closed Loop Drilling Rig*

1. Pipe Rack
2. Drill Rig
3. House Trailers/ Offices
4. Generator/Fuel/Storage
5. Overflow-Frac Tank
6. Skids
7. Roll Offs
8. Hopper or Centrifuge
9. Mud Tanks
10. Loop Drive
11. Generator (only for use with centrifuge)

* Not drawn to scale: Closed loop system requires at least 30 feet beyond mud tanks. Ideally 60 feet would be available

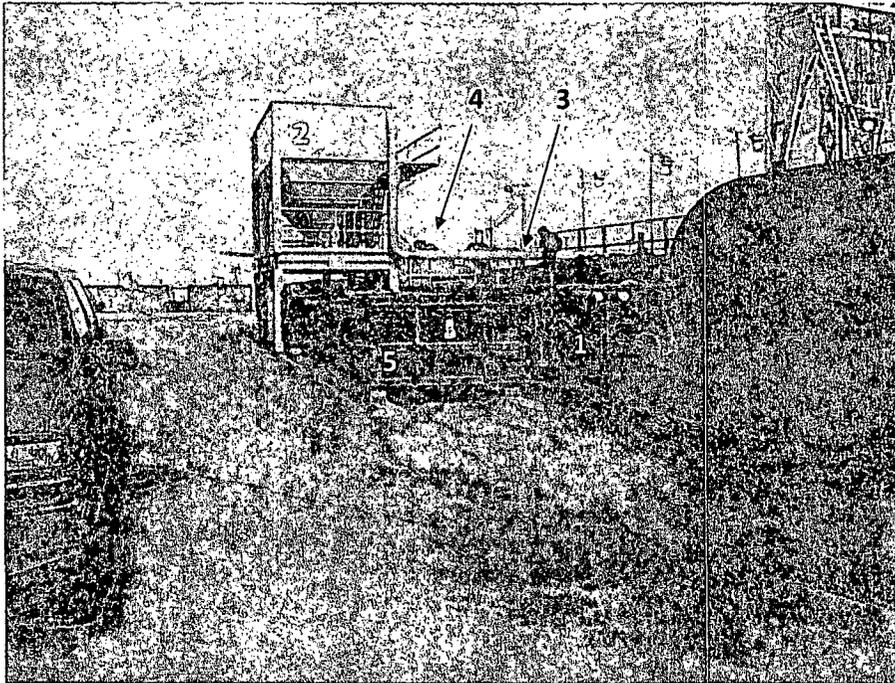


Above: Centrifugal Closed Loop System

PERMITS WEST, INC.

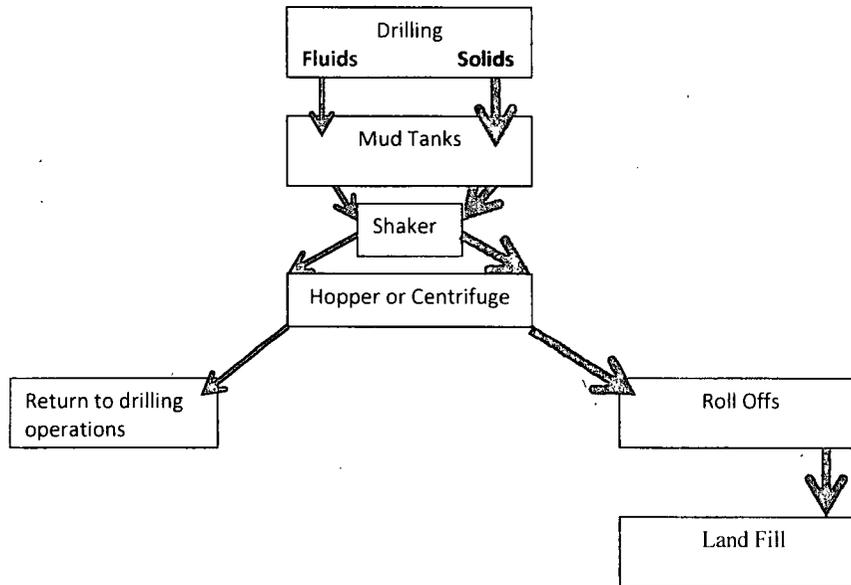
PROVIDING PERMITS for LAND USERS

17Verano Loop, Santa Fe, New Mexico 87508 (505) 466-8120



Closed Loop Drilling System: Mud tanks to right (1)
 Hopper in air to settle out solids (2)
 Water return pipe (3)
 Shaker between hopper and mud tanks (4)
 Roll offs on skids (5)

Flow Chart for Drilling Fluids and Solids



Photos Courtesy of Gandy Corporation Oil Field Service

Capstone Natural Resources, LLC
Closed Loop System Plan
Design, Operation & Maintenance, and Closure Plan

Design

The closed loop system plan (CLSP) uses above ground steel tanks, roll off bins, and overflow-frac tanks suitable for holding the cuttings and fluids from rig operations. These containers will be sufficient in volume to maintain a safe free board between disposal of liquids and solids. There will be no drying pad, temporary pit, below grade tank, or sump. (A document showing a schematic of a typical well pad and closed loop system (CLS) is attached.)

- Signage will comply with 19. 15. 3. 103. NMAC
- Frac tanks to store fresh water will be on location
- No fence is required for this above ground CLSP

Operation & Maintenance

- 1) The steel above ground tanks will contain liquids and solids to prevent the contamination of fresh water sources.
- 2) Liquids & solids will either be vacuumed out separately or hauled off in roll off bins. Disposal will occur at appropriate OCD licensed facilities on a periodic basis to prevent over topping. Solids will be trucked to Controlled Recovery's facility (NM-01-0006) in 27-20s-32e. Liquids will be trucked to the Gandy Marley facility (NM-01-0019) in 4-11s-31e.
- 3) No hazardous waste, miscellaneous solid waste or debris will be discharged into or placed in the tanks. Only fluids or cuttings used or generated by rig operations will be placed or stored in the tanks.
- 4) No waste will be disposed of or buried on location.
- 5) All of the operations will be inspected and a log will be signed daily during rig operations.
- 6) Upon discovery of a compromised closed loop tank, repairs will begin immediately. The OCD district office will be notified within 48 hours of discovery of any compromise.

Closure

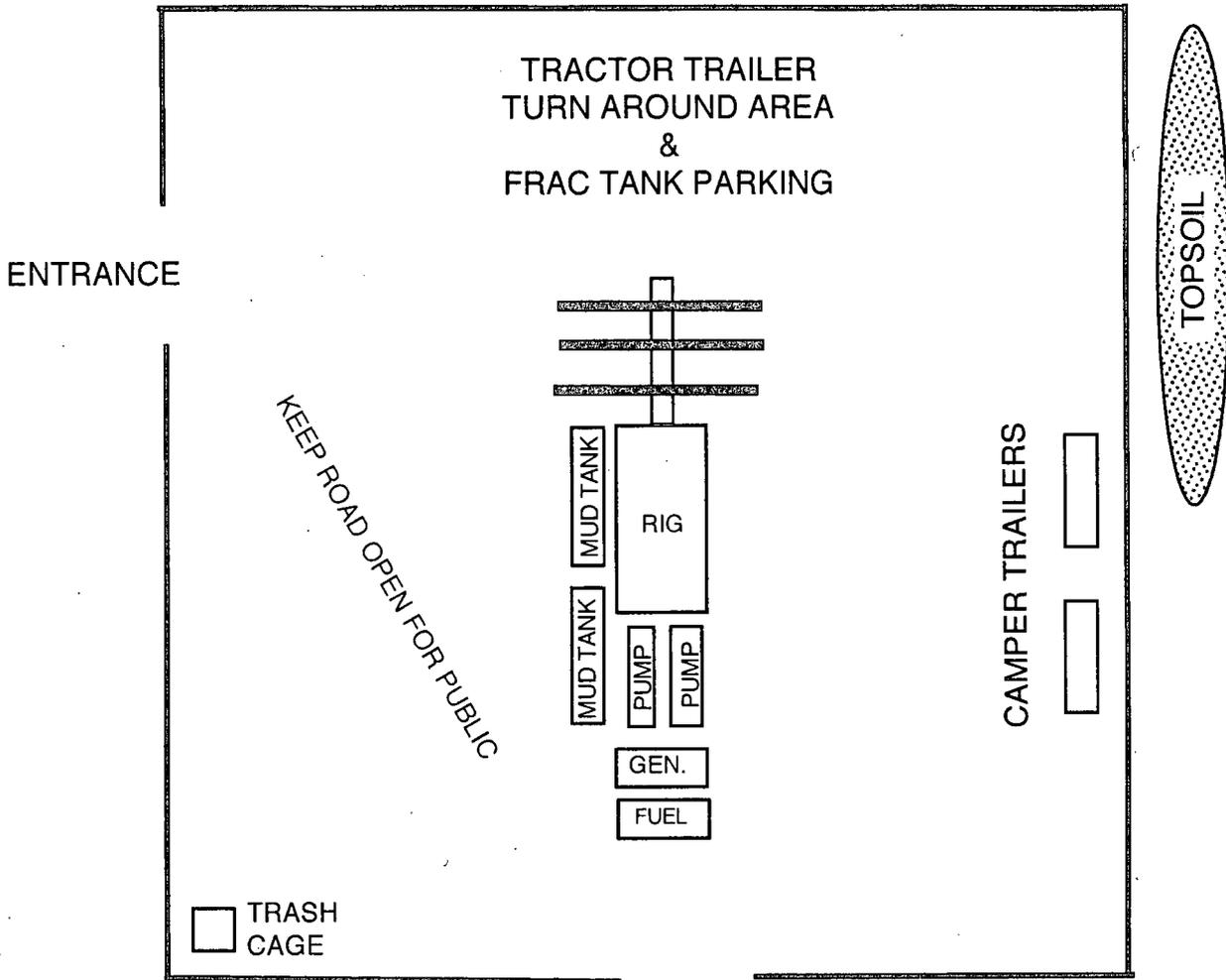
- 1) The closed loop tanks will be closed in accordance with 19. 15. 17. 13. NMAC.
- 2) Cuttings and all remaining sludge will be transported to an appropriate OCD licensed facility immediately following completion of rig operations.
- 3) All remaining liquids will be transported to an appropriate OCD licensed facility.
- 4) Tanks will be removed from the location as part of the rig move.
- 5) At time of well plugging & abandonment, the entire well site will be reclaimed and re-vegetated to preexisting conditions when possible.

Capstone Natural Resources, LLC
Lea C Federal 17
330' FSL & 330' FEL
Sec. 11, T. 17 S., R. 31 E.
Eddy County, New Mexico

NORTH



1" = 40'



Hydrogen Sulfide (H₂S) Drilling Operations Plan

Lea C Federal 17

330' FSL & 330' FEL Section 11, T. 17 S., R. 31 E.

Eddy County, New Mexico

32° 50' 34.15" North & 103° 49' 58.01" West

Prepared for



Prepared by



Table of Contents

1.0 General	1
1.0 Description of Hydrogen Sulfide Gas	1
1.1 Toxicity	1
1.2 H ₂ S First Aid and Treatment Procedures	2
2.0 Hydrogen Sulfide H₂S Contingency Plan	3
2.1 Introduction	3
2.2 Purpose	3
2.3 Operating Procedures	4
2.4 H ₂ S Emergency Procedures	8
3.0 Appendices	12

Checklist for Drilling, Work Over, and Maintenance in H₂S Environment

1. All personnel will receive proper H₂S training in accordance with Onshore Order 6, Section III.C.3.a.
2. Two safety-briefing areas will be established at least 100 yards from the wellhead. At least one briefing area will be upwind at all times. These sites should be located uphill whenever possible. (see Appendix 3.1)
3. Identify direction of prevailing winds (see Appendix 3.1)
4. At least two wind socks will be installed at all times
5. Primary and secondary emergency escape routes (flagged trail minimum)
6. Number, types, and storage location of H₂S emergency respirators for personnel, and number of personnel to be present onsite at any one time.
7. H₂S detector locations (3 minimum to include cellar or bell nipple and mud tanks at shale shaker). Type and location of visual and audible alarms to be used.
8. H₂S evacuation and emergency training procedures and schedule (i.e. Contingency Plan)
9. List of area residents within a two-mile radius, evacuation plan, and contact list (including agencies and individuals)
10. Types and quantities of mud additives and scavengers to be available at location for H₂S operations
11. Design features and operational procedures to be used to provide safe working environment (all equipment meets standards for H₂S service)
12. Appropriate warning signs and flags on all access roads
13. Provisions for blocking and monitoring access to location during critical incident
14. Ventilation fan under rig floor
15. In event of uncontrolled blowout, designation of local official who has authority to ignite flow
16. Swabbing or drill stem fluids containing H₂S should be put through a separator to permit flaring of gas. Flare should have a continuous pilot light to ensure ignition of all such gas.

1.0 General

1.1 Description of Hydrogen Sulfide Gas

Hydrogen Sulfide (H_2S) is a colorless, transparent gas with a distinct and characteristic rotten-egg odor at low concentrations. It is not detectable by odor at high concentrations. H_2S at higher concentrations and/or over longer periods of exposure paralyzes the olfactory sense for that specific odor. The gas is extremely toxic to humans and can easily become dangerous and lethal. Extreme care and caution is needed to prevent injury and/or death. H_2S has a specific gravity of 1.192 that is heavier than air. It tends, therefore, to accumulate in low places. This collection of gas can lead to dangerous concentrations in areas such as arroyos and drainages. H_2S from down hole is often warmer than surface air and will therefore tend to rise and therefore affect workers above the escaping source. Hydrogen Sulfide is explosive and water soluble.

1.2 Toxicity

American National Standards Institute standard: Z37.2-1972 Acceptable Concentrations of Hydrogen Sulfide describes H_2S toxicity in this way: Hydrogen Sulfide is an extremely toxic and irritating gas. Free hydrogen sulfide in the blood reduces its oxygen-carrying capacity, thereby depressing the nervous system. Hydrogen sulfide is oxidized quite rapidly to sulfates in the body, therefore no permanent aftereffects occur in cases of recovery from acute exposures unless oxygen deprivation of the nervous system is prolonged. There is no evidence that repeated exposures to hydrogen sulfide result in accumulative or systemic poisoning. Effects such as eye irritation, respiratory tract irritation, slow pulse rate, lassitude, digestive disturbances, and cold sweats may occur but these symptoms disappear in a relatively short time after removal from the exposure. Odors become detectable in concentrations as low as .008 parts per million (ppm) (California studies), but the sense of smell is lost after 2-15 minutes at 100 ppm.

1.3 H₂S First Aid and Treatment Procedures

- Victim should be removed to fresh air immediately**
- If victim is not breathing, rescue breathing or artificial breathing should be started immediately
- Treat for shock; keep victim warm and comfortable
- Call ambulance and/or doctor, take victim immediately to emergency room or other healthcare facility

****The rescuer(s) should always wear personal protective equipment when attempting to rescue an H₂S victim. It is important to never increase the number of victims unnecessarily during an H₂S emergency.**

2.0 Hydrogen Sulfide (H₂S) Contingency Plan

2.1 Introduction

This plan provides required procedures to be followed to provide for a safe H₂S working environment. These required procedures include safety procedures, precautionary measures, and training for emergency and standard procedures. This document sets forth the responsibilities of the operator and all individuals and entities under employment or contract with the operator working in a sour oil or gas (H₂S) area.

To make this contingency plan effective and in order to provide a safe working environment, cooperation from all individuals is a necessity. Each person on site must understand normal and emergency operating procedures for this site. Each individual on site must have adequate information, training, and practice with the specific procedures described in this Contingency Plan. It is the responsibility of both the operator to provide adequate equipment, training, and procedures, as well as the individual worker's responsibility to participate fully in all H₂S procedures, to familiarize themselves with the location of all safety equipment and features, and to keep equipment and procedures in working order and up to date.

In order for Capstone Natural Resources, LLC to provide a safe working environment for all workers and individuals in the vicinity of the well the safeguards are put in place. **Initiative lies with each and every individual for the safety of all. The drilling foreman is required to and will enforce all safety procedures, for the benefit of all involved.**

2.2 Purpose

Capstone Natural Resources, LLC will provide a safe working environment for all neighbors, employees, contractors, and others involved with the drilling of its well. There exists the possibility of encountering toxic H₂S gas during the drilling, completion, maintenance, and production of the well. This H₂S contingency plan will be put into effect after surface casing is drilled or when it is deemed necessary by the BLM in consultation with Capstone Natural Resources, LLC

Safety procedures are established for each person's safety connected with the operation and for the safety of the residents of the local area. No house is within 2 miles.

The Capstone Natural Resources, LLC foreman will strictly enforce these procedures. Noncompliance may result in loss of pay or dismissal from the site, job, or employment.

2.3 Operating Procedures

Before this H₂S contingency plan is operational, all personnel that are to be involved with operation will be thoroughly trained* in the proper use of breathing apparatus (i. e. Self Contained Breathing Apparatus and Escape Units), emergency procedures, and H₂S first aid and rescue methods. Training will include means of communication when wearing breathing apparatus. An approved list of trained personnel will be supplied by the safety company and stored with the drilling foreman.**

*Required training for operation personnel will include, but not be limited to, an H₂S safety course from an approved training company, safety briefing at the drill site on all safety equipment use and locations before the start of work for each and every person onsite, safety related training in-place, on-site 1,000 feet before drilling the first H₂S formation.

**Throughout this contingency plan breathing apparatus shall be understood as

- a) A Self-Contained Breathing Apparatus (SCBA) manufactured such as Scott Industrial C100 or similar.
- b) Or an emergency Escape Unit such as the Scott SCRAM or Elsa (or similar) often referred to as hip packs, hoods, or pony bottles.

The two types of breathing apparatus will be differentiated as a SCBA or as an Escape Unit as required.

2.3.1 Safety Equipment

Personal H₂S & SO₄ monitors - Every person on site will be required to wear a personal H₂S & SO₄ monitor at all times while onsite. Monitors will not be worn on hard hats, but should be worn on the waist belt or preferably near the chest in-front.

Breathing Apparatus - All personnel on the drill site will be assigned an individual breathing apparatus unit. This may be either an escape unit or a SCBA unit. A minimum of two SCBA type units will be onsite. These units will be used by the team whose duty it is to serve as the onsite rescue team.

Monitoring and Recording Devices - An experienced safety company (such as Total Safety U. S., Inc., Artesia, NM) will responsible for the installation and monitoring of H₂S detectors placed on site. These units will be tested and recalibrated as the safety company requires. If H₂S is detected, the monitors will be tested and recalibrated at least every 12 hours. This monitoring system may or may not be integral to the required 2-stage alarm system on site. This 2-stage system (visual and audio) will have a minimum

of three H₂S detector locations. Monitors will be located: 1) in the cellar or on the bell nipple, 2), at the mud tanks' shale shaker, and 3), to be determined by the safety company. Visual (light) and audio (siren) alarms will activate when H₂S concentrations reach 10 ppm.

First-Aid and rescue equipment - Stored on-site, but ideally uphill and upwind from H₂S sources a minimum of one "rescue pack" will contain at least:

- 1 backboard, straps, head blocks
- a set of cervical collars (s-xl)
- 1 bag valve mask
- 1 bottle of oxygen
- gauze and other standard first-aid items

suggest - 1 AED (automatic external defibrillator)

Gas Monitor - An appropriate monitor should be on-site that can measure for LLE, VOC, and other explosive or hazardous gasses.

2.3.2 Safety Procedures

Cascade System - Every person required to perform duties within "safety zones" (see list below) will be provided with breathing equipment attached to a cascade air system. These areas are as follows

- rig floor
- mud pit
- derrick
- shale shaker
- mud hopper and bulk hopper
- all hazardous locations will be accessible by hose and work pack (SCBA)

Escape Routes - Two escape routes will be at a minimum flagged and kept clear at all times.

Safety Briefing Areas - Two safety-briefing areas will be located at the end of escape routes (see above). The briefing areas will be clearly marked, at least one up-hill, and located so that one site is always up wind. Please see attached site map for safety briefing areas in Appendix 3.1.

Safety, first-aid, and rescue equipment - Will be stored on site using best practices. This will include proper maintenance and scheduled testing, inspection, and training/practice.

Service companies - All service companies will be briefed regarding potential hazards of the well site including the presence (or potential for) H₂S. These companies will be required to provide breathing apparatus and training to their employees. No service company personnel will be allowed onsite without meeting these requirements. In addition a safety briefing under the direction of the drill foreman regarding site specific H₂S procedures will be provided to each new personnel member reporting on-site.

Drills and practice - Drills reviewing all and any safety procedures including evacuation, rescue, and proper procedures to shut-in a well, and identify source of H₂S in instance of a leak will be practiced under the supervision of the safety company representative and company foreman. Proper use of breathing apparatus will be instructed during such drills. Drill schedule will be designed to familiarize new personnel with all safety procedures. Each crew should also be familiar with all operations. Drills should include a short work period in safety equipment.

Warning Signs - Warning signs will be posted on all access roads. "No smoking" signs will be posted at access points as well. Signs will be posted at least 200 feet and no more than 500 from well pad. When H₂S is present at 10 ppm or greater a red flag shall be displayed on the warning sign. Gates, road barricades, and/or gate guards will be used if necessary to prevent access during critical or hazardous situations.

Wind Socks - A minimum of two windsocks should be installed at locations easily observable from all work areas. If more than two windsocks are needed in order to allow "workers" at all times to easily identify the wind direction; more windsock will be installed.

Vehicle Parking - Vehicles should be parked 200 feet from the well site with their fronts pointing away from the well site. Preferably vehicles will be located up hill and up wind from the well along the escape route.

Testing Fluids - Swabbing and testing fluids containing H₂S will be pass through a separator to permit flaring of the gas. There will be a pilot light in such instances.

Bug Blowers - Circulation will be provided by explosion proof electric fans at all critical locations when necessary.

Drills - Reviewing any and all safety procedures including evacuation, rescue, proper procedures to shut-in a well, and how to identify the source of H₂S if a leak occurs

will be practiced under the supervision of the safety company representative and company foreman. Proper use of breathing apparatus will be taught during such drills. The drill schedule will be designed to familiarize new personnel with all safety procedures. Each crewmember will be familiar with all operations. Drills should include a short work period in safety equipment.

2.3.3 Working Conditions

Occupational Safety and Health Administration (OSHA) has set guidelines for Permissible Exposure Limits (PEL). The standard is to be considered the threshold **never to be exceeded** for the health and safety of all workers on this site. Ideally, exposure would never be this high.

2.3.3.1 Exposure Limits

OSHA Permissible Exposure Limit (PEL) for General Industry: 29 CFR 1910.1000 Z-2 Table -- Exposures shall not exceed 20 ppm (ceiling) with the following exception: if no other measurable exposure occurs during the 8-hour work shift, exposures may exceed 20 ppm, but not more than 50 ppm (peak), for a single time period up to 10 minutes.

OSHA Permissible Exposure Limit (PEL) for Construction Industry: 29 CFR 1926.55 Appendix A -- 10 ppm, 15 mg/m³ TWA (accessed via the internet at: http://www.osha.gov/dts/chemicalsampling/data/CH_246800.html#exposure on 19 July 2007)

The maximum exposure limit for an 8 hour day is less than 10 ppm.

2.4 H₂S Emergency Procedures

2.4.1 Incident

H₂S alarm system activation. Light and siren warnings or personal H₂S monitor activation for any one “worker.”

2.4.2 Primary Emergency Procedure

- i. All rig crew personnel and all auxiliary personnel must **DON BREATHING APPARATUS IMMEDIATELY.**
- ii. Rig crew should mask up with SCBA type work packs preferentially
- iii. All auxiliary crew should move to safety briefing area, uphill and upwind.
- iv. All non-essential personal should continue to evacuate site.

2.4.3 Secondary Emergency Procedure

I. Supervisory Personnel

- i. Company Foreman
 - a. Proceed to cascade trailer and check for safe operation of the cascade system.
 - b. Proceed to active safety briefing areas and account for all personnel. If all personnel are not accounted, then initiate an appropriate search.
 - c. Return to the drilling floor and supervise operations.
- ii. Tool Pusher
 - a. Proceed to cascade trailer and check if Company Foreman is operating cascade system safely. If NOT ensure safe operations of the cascade system.
 - b. Proceed to drilling floor and supervise operations. Make sure all crewmembers are accounted for and institute buddy system. If all personnel are not accounted for, initiate appropriate search.

II. Rig Crew

- i. Driller
 - a. if drilling

1. after donning breathing apparatus proceed to console and raise kelly to slip set position
2. shut down mud pumps
3. monitor well flow, remain at console
4. use hand signals to verify all personnel are at stations, verify company man and tool pusher's position, initiate search if well is not flowing

b. If tripping

1. after donning breathing apparatus put pipe in the slip-set position
2. stab safety valve, close safety valve
3. monitor well flow-remain at console
4. watch derrick man descend from derrick, verify all personnel locations, verify company man and tool pusher's position, initiate search if well is not flowing

c. if well is flowing

1. after donning breathing apparatus, shut well in HARD
2. verify all personnel locations, verify company man and tool pusher's position, initiate search if necessary
3. obtain necessary pressures for well control
4. proceed to safety briefing area with crew, plan well control operations with all personnel

ii. Derrick Man

- a. after donning breathing apparatus, go to pit side window on the floor whether drilling or tripping (descend derrick)
- b. maintain visual contact with driller and monitor flow
- c. if mud properties are needed, then proceed to the shaker with "buddy"
- d. monitor other hands on pit side of rig visually
- e. proceed to open manual well-head if necessary (with "buddy")

- iii. Motorman
 - a. after donning breathing apparatus, go to the cascade system and ensure safe operation
 - b. maintain visual contact with chain hand on doghouse side of floor
- iv. Chain Hand
 - a. after donning breathing apparatus, stab safety valve if tripping
 - b. go to doghouse/pipe-rack and maintain visual contact with driller and motorman
- v. Floor man
 - a. after donning breathing apparatus, stab safety valve if tripping
 - b. aid driller while maintaining visual contact with driller, derrick man, and chain hand

III. Auxiliary Personnel

- i. Mud engineer and Company man or geologist are to act as wardens. Wardens must account for all other auxiliary crew.
- ii. All auxiliary crew are to remain in safety briefing area unless evacuated by wardens.
- iii. Wardens organize search with notification from company. All searches are to be done with "buddy". Geologist warden should remain in safety briefing area.

2.4.4 Igniting the Well

I. Decision

- i. The Company Foreman is responsible for the decision to ignite a well. If he is incapacitated or absent, then authority passes to the tool pusher, and then the contract driller
- ii. the decision to ignite the well is only to be made as a last resort safety measure if:
 - a. there is threat human life and grave threat to public safety and equipment
 - b. there is no alternative way of containing the well given the emergency faced.
 - c. an attempt was made to contact area office (circumstances permitting)*

***When human life is threatened, there can be no delay in making a decision.**

I. Instructions for Igniting the Well

- i. Two individuals are required for ignition.
- ii. Both individuals will wear self-contained breathing apparatus and have 200-foot retrieval ropes tied to their waists.
- iii. One individual will measure the atmosphere for explosive gasses with appropriate meter.
- iv. The other individual will remain in the safety briefing area
- v. Others in the briefing area are to remain aware of both individuals and aid as able. If either tethered individual is overcome by gas, he should be pulled to safety.
- vi. The well should be lit with a 25 mm meteor type flare gun when well conditions allow. The safest method of igniting the well should always be used.
- vii. Burning H_2S will produce sulfur dioxide which is poisonous. The area therefore is not safe once the well has ignited. Continue to observe all emergency procedures and follow orders from supervisors and the area office. Notice of incident must be reported to all appropriate authorities.

3.0 Appendices

3.1 Check List for Safety Equipment (designed for a maximum of 11 people)

Safety Trailer housing cascade system at least ten 300 cu. ft. bottles of compressed air

7 SCBA type breathing apparatus with 45 cu. ft. bottles

5 breathing masks connected to the cascade system with 7 cu. ft. pony bottles

2 extra 300 cu. ft. bottles able to refill SCBA bottles will be at the safety briefing areas

2 Wind socks

1 Flare gun and flares

1 rescue pack (as described in section 2.3.1)

Warning signs for access (flags for marking conditions)

“Safety Briefing Area” signs, evacuation route flags

H₂S monitors (personnel and stationary)

Alarm system (audio and visual—explosion proof)

Gas Monitor

Onshore Order 6 III. A. 1. c. equipment and systems

i. Flare line will have an electronic igniter and/or a continuous pilot flame. The choke manifold will have at least 1 remote controlled choke. There will be a flare gun with flares on the rig floor.

ii. Safety equipment is listed above. Breathing equipment will be stored on the rig floor and at the primary briefing area (see Page 18). Equipment will be tested, and maintained as needed, at least weekly and after any use. Crew will practice using hand signals, or wireless if so equipped, to communicate while wearing breathing apparatus at least weekly.

iii. There will be at least 2 portable H₂S and SO₂ monitors (sensors) on location. Monitors will have warning lights and sirens or horns. Monitors will activate when H₂S levels reach 20-ppm. One monitor will be on the rig floor and one will be at the flare line.

iv. See Page 18 for the location of windsocks and warning signs.

v. The mud program will minimize the amount of H₂S reaching the surface by appropriate mud weight and H₂S scavenger additives. The operator will use an H₂S gas buster and mud gas separator as needed.

vi. The drill pipe, casing, tubing, well head equipment, blow out preventers, drilling spool, kill lines, choke manifold and lines, valves, and elastomers used for packing and seals will be H₂S compatible.

vii. Cellular phones will be on the rig floor, vehicles, and company man’s trailer.

3.2 Emergency Phone Numbers

Capstone Natural Resources, LLC Personnel to be Notified

Darren Seglem, Production Manager

Office: (432) 218-7924

Cellular: (432) 664-5477

or

Phillip W. Terry, Chief Executive Officer

Office: (918) 236-3800

Safety Company Personnel

(Name)	(Position)	(Number work)	(Number home)
(Name)	(Position)	(Number work)	(Number home)

Local & County Agencies

Maljamar Fire Department	911 or (575) 676-4100
Loco Hills Fire Department	911 or (575) 677-2349
Eddy County Sheriff (Artesia)	911 (575) 748-2323
Eddy County Emergency Management (Carlsbad)	(575) 887-9511
Eddy County Emergency Management (Artesia)	(575) 746-9540
Eddy County Health Services (Carlsbad)	(575) 887-9511
Artesia Hospital 702 North 13 th Street, Artesia	(575) 748-3333

State Agencies

NM State Police (Artesia)	(575) 748-9718
NM Oil Conservation (Artesia)	(575) 748-1283
NM Oil Conservation (Santa Fe)	(505) 476-3440
NM Dept. of Transportation (Roswell)	(575) 637-7201

Federal Agencies

BLM Carlsbad Field Office	(575) 234-5972
National Response Center	(800) 424-8802
US EPA Region 6 (Dallas)	(800) 887-6063 or (214) 665-6444

Other Contacts

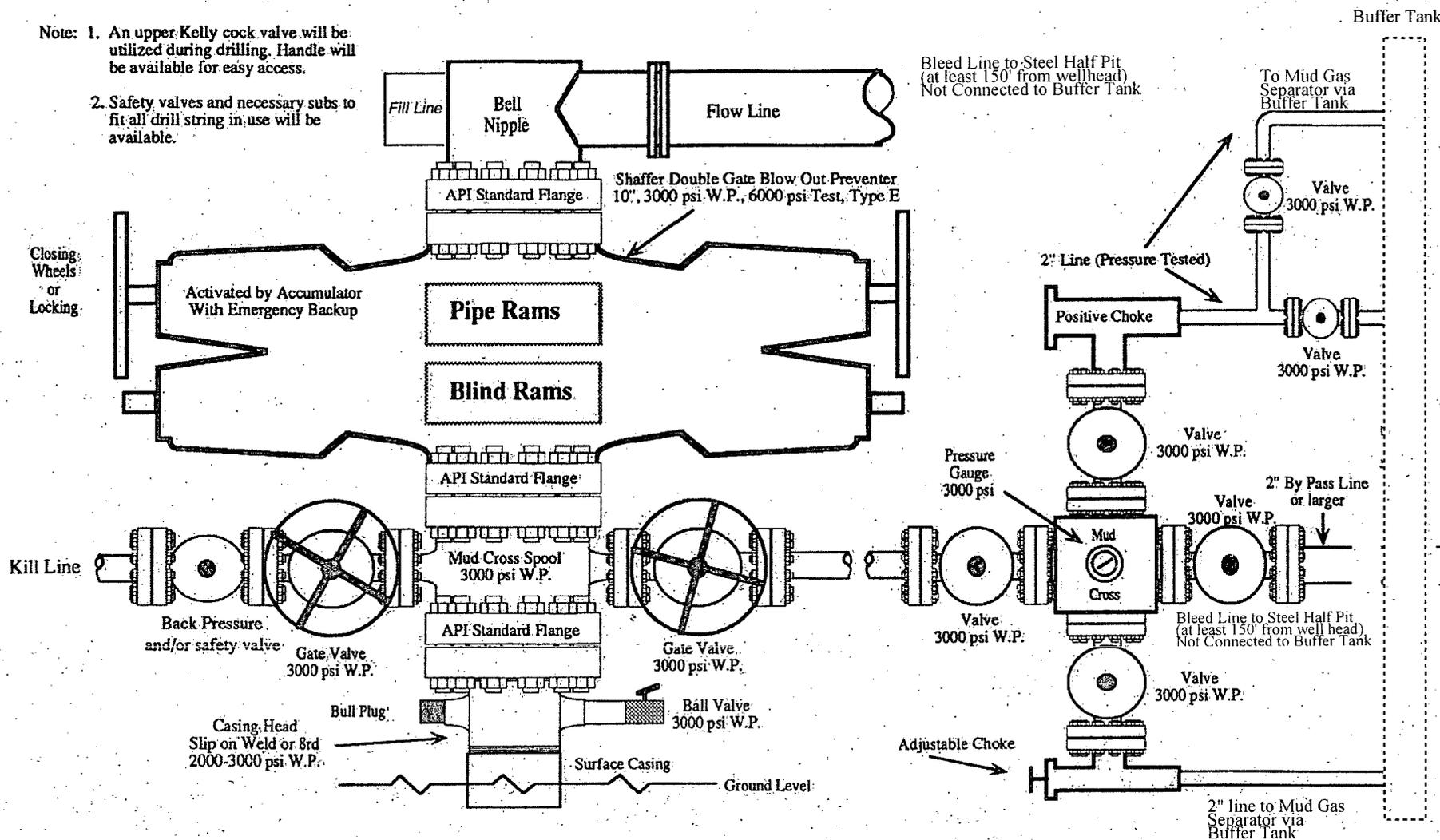
Veterinarian	Artesia Animal Clinic	(575) 748-2042
--------------	-----------------------	----------------

Residents within 2 miles

There are no homes within 2 miles.

2,000 PSI BOP SYSTEM

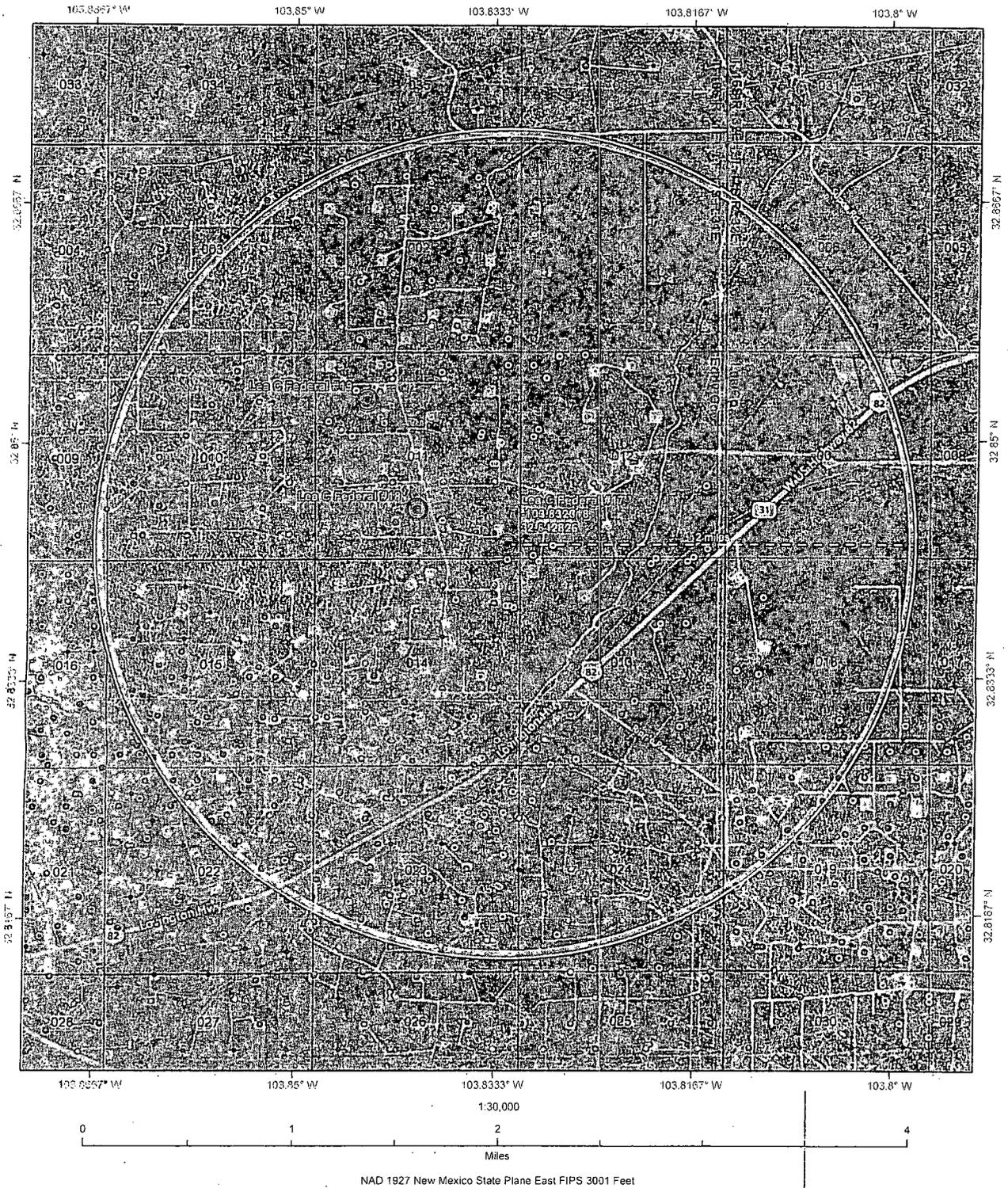
- Note: 1. An upper Kelly cock valve will be utilized during drilling. Handle will be available for easy access.
2. Safety valves and necessary subs to fit all drill string in use will be available.



Note: This equipment is designed to meet requirements for a 2-M rating standard per 43 CFR part 3160 (amended). Proper operation and testing of equipment will be carried out per standard. 2,000 psi equipment can be substituted in the drawing to meet minimum requirements per standard.

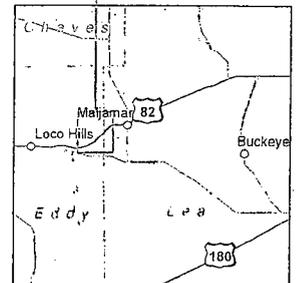


H₂S Contingency Plan Map: Proposed Lea C Federal #17 Well
 Section 11, Township 21S, Range 32E; Eddy County, New Mexico;



Existing and Proposed Oil & Gas Wells

- Producing
- Proposed or Recently Drilled
- Proposed (never drilled)
- ✦ Dry Hole
- ⊕ Plugged
- Temporarily Abandoned

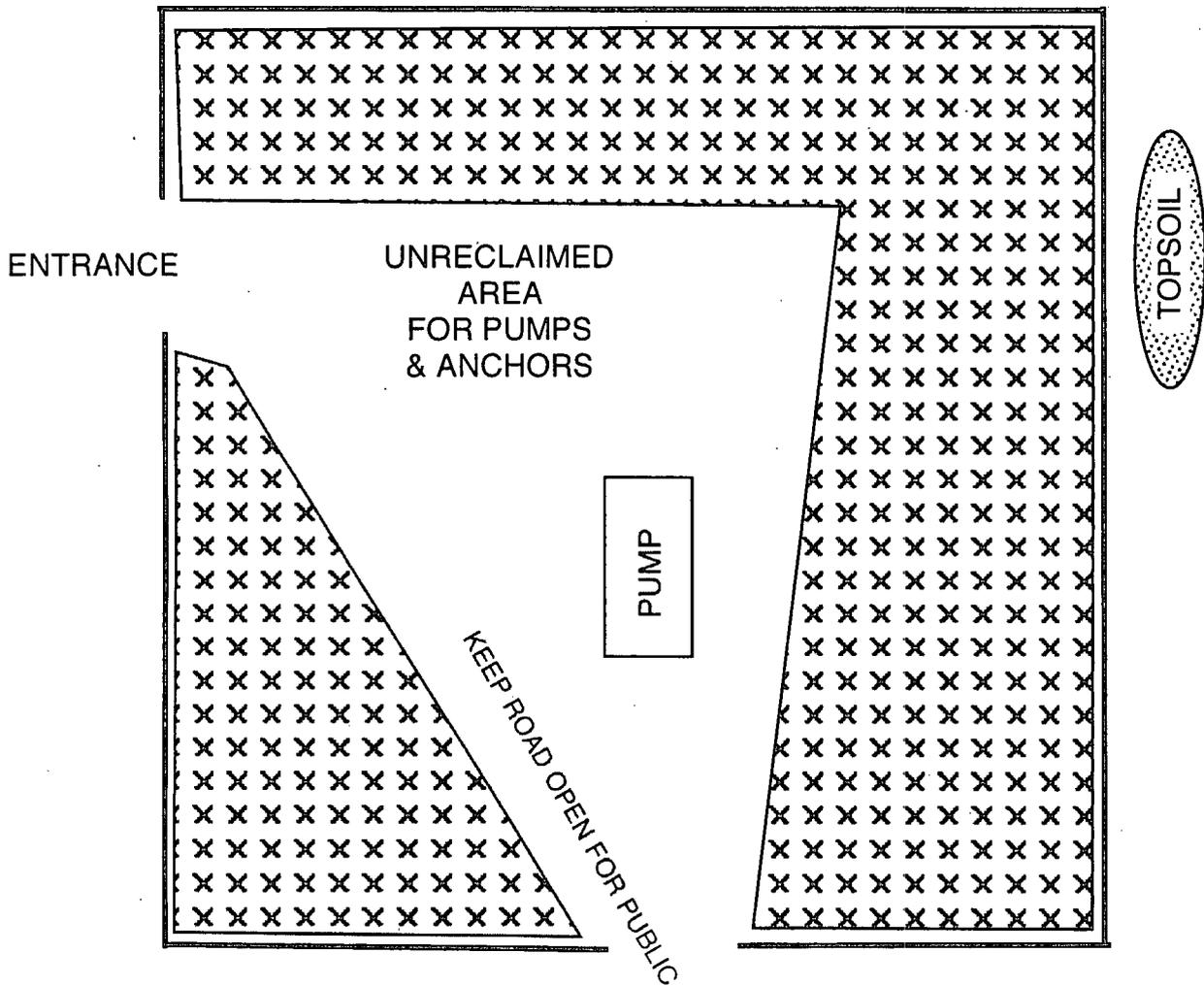


Capstone Natural Resources, LLC
Lea C Federal 17
330' FSL & 330' FEL
Sec. 11, T. 17 S., R. 31 E.
Eddy County, New Mexico

NORTH



1" = 40'



PECOS DISTRICT CONDITIONS OF APPROVAL

OPERATOR'S NAME:	CAPSTONE NATURAL RESOURCES, LLC
LEASE NO.:	LC029418B
WELL NAME & NO.:	17-LEA C FEDERAL
SURFACE HOLE FOOTAGE:	330'/S. & 330'/E.
BOTTOM HOLE FOOTAGE:	
LOCATION:	Section 11, T. 17 S., R. 31 E., NMPM
COUNTY:	Eddy County, New Mexico

TABLE OF CONTENTS

Standard Conditions of Approval (COA) apply to this APD. If any deviations to these standards exist or special COAs are required, the section with the deviation or requirement will be checked below.

- General Provisions**
- Permit Expiration**
- Archaeology, Paleontology, and Historical Sites**
- Noxious Weeds**
- Special Requirements**
 - Lesser Prairie-Chicken Timing Stipulations
 - Ground-level Abandoned Well Marker

- Construction**
 - Notification
 - Topsoil
 - Closed Loop System
 - Federal Mineral Material Pits
 - Well Pads
 - Roads
- Road Section Diagram**
- Drilling**
 - H2S Requirements-Onshore Order #6
 - Logging Requirements
 - Waste Material and Fluids
- Production (Post Drilling)**
 - Well Structures & Facilities
 - Pipelines
 - Electric Lines
- Interim Reclamation**
- Final Abandonment & Reclamation**

I. GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

II. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD. (Filing of a Sundry Notice is required for this 60 day extension.)

III. 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 is fully accountable for the actions of their contractors and subcontractors. 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.

IV. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations. Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

V. SPECIAL REQUIREMENT(S)

Timing Limitation Stipulation / Condition of Approval for lesser prairie-chicken:

Oil and gas activities including 3-D geophysical exploration, and drilling will not be allowed in lesser prairie-chicken habitat during the period from March 1st through June 15th annually. During that period, other activities that produce noise or involve human activity, such as the maintenance of oil and gas facilities, pipeline, road, and well pad construction, will be allowed except between 3:00 am and 9:00 am. The 3:00 am to 9:00 am restriction will not apply to normal, around-the-clock operations, such as venting, flaring, or pumping, which do not require a human presence during this period.

Additionally, no new drilling will be allowed within up to 200 meters of leks known at the time of permitting. Normal vehicle use on existing roads will not be restricted.

Exhaust noise from pump jack engines must be muffled or otherwise controlled so as not to exceed 75 db measured at 30 feet from the source of the noise.

Ground-level Abandoned Well Marker to avoid raptor perching: Upon the plugging and subsequent abandonment of the well, the well marker will be installed at ground level on a plate containing the pertinent information for the plugged well. For more installation details, contact the Carlsbad Field Office at 575-234-5972.

VI. CONSTRUCTION

A. NOTIFICATION

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Carlsbad Field Office at (575) 234-5909 at least 3 working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved APD and Conditions of Approval (COA) on the well site and they shall be made available upon request by the Authorized Officer.

B. TOPSOIL

The operator shall stockpile the topsoil in a low profile manner in order to prevent wind/water erosion of the topsoil. The topsoil to be stripped is approximately 4 inches in depth. The topsoil will be used for interim and final reclamation.

C. CLOSED LOOP SYSTEM

Tanks are required for drilling operations: No Pits.

The operator shall properly dispose of drilling contents at an authorized disposal site.

D. FEDERAL MINERAL MATERIALS PIT

Payment shall be made to the BLM prior to removal of any federal mineral materials. Call the Carlsbad Field Office at (575) 234-5972.

E. WELL PAD SURFACING

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material may be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational needs.

F. ON LEASE ACCESS ROADS

Road Width

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 twenty (20) feet.

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, the surfacing material may be required to be removed at the time of reclamation.

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 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.

Crowning

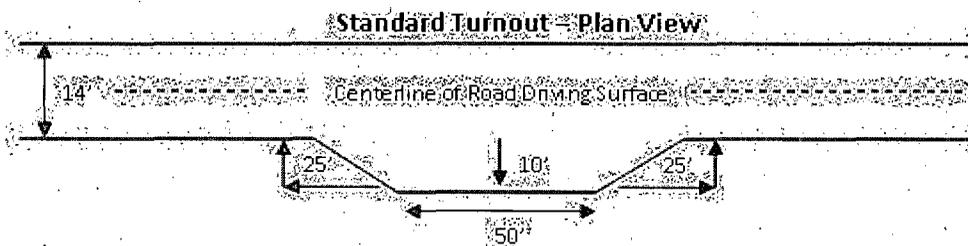
Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

Ditching

Ditching shall be required on both sides of the road.

Turnouts

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:

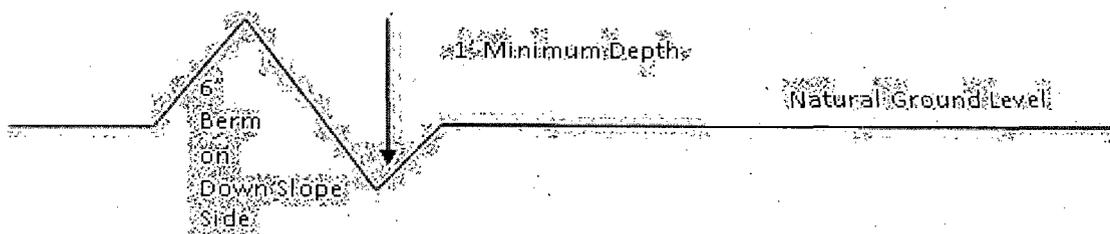


Drainage

Drainage control systems shall be constructed on the entire length of road (e.g. ditches, sidehill outsloping and insloping, 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 a 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:

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

Culvert Installations

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

Cattleguards

An appropriately sized cattleguard(s) sufficient to carry out the project shall be installed and maintained at fence crossing(s).

Any existing cattleguard(s) on the access road shall be repaired or replaced if they are damaged or have deteriorated beyond practical use. The operator shall be responsible for the condition of the existing cattleguard(s) that are in place and are utilized during lease operations.

A gate shall be constructed and fastened securely to H-braces.

Fence Requirement

Where entry is required across a fence line, the fence shall be braced and tied off on both sides of the passageway prior to cutting.

The operator shall notify the private surface landowner or the grazing allotment holder prior to crossing any fence(s).

VII. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

The BLM is to be notified a minimum of 4 hours in advance for a representative to witness:

- a. Spudding well
- b. Setting and/or Cementing of all casing strings
- c. BOPE tests

Eddy County

Call the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220,
(575) 361-2822

1. A Hydrogen Sulfide (H₂S) Drilling Plan shall be activated 500 feet prior to drilling into the **Grayburg** formation. **As a result, the Hydrogen Sulfide area must meet Onshore Order 6 requirements, which includes equipment and personnel/public protection items. If Hydrogen Sulfide is encountered, please provide measured values and formations to the BLM.**
2. 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. **If the drilling rig is removed without approval – an Incident of Non-Compliance will be written and will be a “Major” violation.**
3. **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. 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.).

Centralizers required on surface casing per Onshore Order 2.III.B.1.f.

Wait on cement (WOC) time prior to drilling out for a primary cement job will be a minimum 18 hours for a water basin, 24 hours in the potash area, or 500 pounds compressive strength, whichever is greater for all casing strings. DURING THIS WOC TIME, NO DRILL PIPE, ETC. SHALL BE RUN IN THE HOLE. Provide compressive strengths including hours to reach required 500 pounds compressive strength prior to cementing each casing string. See individual casing strings for details regarding lead cement slurry requirements.

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

Possible water flows in the Salado and Artesia Groups.

Possible lost circulation in the Grayburg and San Andres Formations.

1. The 8-5/8 inch surface casing shall be set **at approximately 700 feet (in the base of the Rustler Anhydrite and above the salt)** and cemented to the surface. **If salt is encountered, operator shall set the casing above the salt.**
 - a. If cement does not circulate to the surface, the appropriate BLM office shall be notified and a temperature survey utilizing an electronic type temperature survey with surface log readout will be used or a cement bond log shall be run to verify the top of the cement. Temperature survey will be run a minimum of six hours after pumping cement and ideally between 8-10 hours after completing the cement job.
 - b. **Wait on cement (WOC) time for a primary cement job is to include the lead cement slurry.**
 - c. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compressive strength, whichever is greater.
 - d. If cement falls back, remedial cementing will be done prior to drilling out that string.

Production casing to be kept fluid filled while running into hole to meet minimum collapse requirements.

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.

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 RP 53 Sec. 17.
2. 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.
3. 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 results of the test shall be reported to the appropriate BLM office.
 - d. 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.**
 - e. 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.

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.

CRW 120412

VIII. PRODUCTION (POST DRILLING)

A. WELL STRUCTURES & FACILITIES

Placement of Production Facilities

Production facilities should be placed on the well pad to allow for maximum interim recontouring and revegetation of the well location.

Containment Structures

The containment structure shall be constructed to hold the capacity of the entire contents of the largest tank, plus 24 hour production, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

Painting Requirement

All above-ground structures including meter housing that are not subject to safety requirements shall be painted a flat non-reflective paint color Shale Green, Munsell Soil Color Chart # 5Y 4/2

B. PIPELINES

STANDARD STIPULATIONS FOR SURFACE INSTALLED PIPELINES

A copy of the APD and attachments, including stipulations, survey plat and/or map, will be on location during construction. BLM personnel may request to you a copy of your permit during construction to ensure compliance with all stipulations.

Holder agrees to comply with the following stipulations to the satisfaction of the Authorized Officer:

1. The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under this grant.
2. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976 as amended, 15 USC 2601 et seq. (1982) with regards to any toxic substances that are used, generated by or stored on the right-of-way or on facilities authorized under this right-of-way grant. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation, and Liability Act, section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the authorized officer concurrent with the filing of the reports to the involved Federal agency or State government.

3. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et seq. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et seq.) on the Right-of-Way (unless the release or threatened release is wholly unrelated to activity of the Right-of-Way holder's activity on the Right-of-Way), or resulting from the activity of the Right-of-Way holder on the Right-of-Way. This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.

4. The holder shall be liable for damage or injury to the United States to the extent provided by 43 CFR Sec. 2883.1-4. The holder shall be held to a standard of strict liability for damage or injury to the United States resulting from pipe rupture, fire, or spills caused or substantially aggravated by any of the following within the right-of-way or permit area:

- a. Activities of the holder including, but not limited to construction, operation, maintenance, and termination of the facility.
- b. Activities of other parties including, but not limited to:
 - (1) Land clearing.
 - (2) Earth-disturbing and earth-moving work.
 - (3) Blasting.
 - (4) Vandalism and sabotage.
- c. Acts of God.

The maximum limitation for such strict liability damages shall not exceed one million dollars (\$1,000,000) for any one event, and any liability in excess of such amount shall be determined by the ordinary rules of negligence of the jurisdiction in which the damage or injury occurred.

This section shall not impose strict liability for damage or injury resulting primarily from an act of war or from the negligent acts or omissions of the United States.

5. If, during any phase of the construction, operation, maintenance, or termination of the pipeline, any oil, salt water, or other pollutant should be discharged from the pipeline system, impacting Federal lands, the control and total removal, disposal, and cleaning up of such oil, salt water, or other pollutant, wherever found, shall be the responsibility of the holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on or affecting Federal lands, or to repair all damages resulting therefrom, on the Federal lands, the Authorized Officer may take such measures as he deems necessary to control and clean up the discharge and restore the area, including, where appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the holder. Such action by the Authorized Officer shall not relieve the holder

of any responsibility as provided herein.

6. All construction and maintenance activity will be confined to the authorized right-of-way width of 20 feet.

7. No blading or clearing of any vegetation will be allowed unless approved in writing by the Authorized Officer.

8. The holder shall install the pipeline on the surface in such a manner that will minimize suspension of the pipeline across low areas in the terrain. In hummocky or dune areas, the pipeline will be "snaked" around hummocks and dunes rather than suspended across these features.

9. The pipeline shall be buried with a minimum of 24 inches under all roads, "two-tracks," and trails. Burial of the pipe will continue for 20 feet on each side of each crossing. The condition of the road, upon completion of construction, shall be returned to at least its former state with no bumps or dips remaining in the road surface.

10. The holder shall minimize disturbance to existing fences and other improvements on public lands. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence. No permanent gates will be allowed unless approved by the Authorized Officer.

11. In those areas where erosion control structures are required to stabilize soil conditions, the holder will install such structures as are suitable for the specific soil conditions being encountered and which are in accordance with sound resource management practices.

12. Excluding the pipe, all above-ground structures not subject to safety requirement shall be painted by the holder to blend with the natural color of the landscape. The paint used shall be a color which simulates "Standard Environmental Colors" – **Shale Green**, Munsell Soil Color No. 5Y 4/2; designated by the Rocky Mountain Five State Interagency Committee.

13. The pipeline will be identified by signs at the point of origin and completion of the right-of-way and at all road crossings. At a minimum, signs will state the holder's name, BLM serial number, and the product being transported. Signs will be maintained in a legible condition for the life of the pipeline.

14. The holder shall not use the pipeline route as a road for purposes other than routine maintenance as determined necessary by the Authorized Officer in consultation with the holder. The holder will take whatever steps are necessary to ensure that the pipeline route is not used as a roadway.

15. Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on his behalf, on public or Federal land shall be immediately reported to the authorized officer. Holder 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 will be made by the authorized officer to determine appropriate cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to proper mitigation measures will be made by the authorized officer after consulting with the holder.

C. ELECTRIC LINES

STIPULATIONS FOR BURIED ELECTRIC DISTRIBUTION LINES

The holder agrees to comply with the following stipulations to the satisfaction of the Authorized Officer, BLM.

1. The Holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under this authorization.
2. The Holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the Holder shall comply with the Toxic Substances Control Act of 1976, as amended (15 U.S.C. 2601, et. seq.) with regard to any toxic substances that are used, generated by or stored on the powerline route or on facilities authorized. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation and Liability Act, Section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the Authorized Officer concurrent with the filing of the reports to the involved Federal agency or State government.
3. The Holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et. seq. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et. seq.) on the right-of-way (unless the release or threatened release is wholly unrelated to the right-of-way Holder's activity on the pipeline). This agreement applies without regard to whether a release is caused by the Holder, its agent, or unrelated third parties.
4. If, during any phase of the construction, operation, maintenance, or termination of the pipeline, any oil or other pollutant should be discharged, impacting Federal lands, the control and total removal, disposal, and cleaning up of such oil or other pollutant, wherever found, shall be the responsibility of the Holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on or affecting Federal lands, or to repair all damages to Federal lands resulting therefrom, the Authorized Officer may take such measures as deemed necessary to control and cleanup the discharge and restore the area, including, where appropriate, the aquatic

environment and fish and wildlife habitats, at the full expense of the Holder. Such action by the Authorized Officer shall not relieve the Holder of any liability or responsibility.

5. Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the Holder, or any person working on the Holder's behalf, on public or Federal land shall be immediately reported to the Authorized Officer. The Holder 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 will be made by the Authorized Officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The Holder will be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the Authorized Officer after consulting with the holder.

6. The holder is hereby obligated to comply with procedures established in the Native American Graves Protection and Repatriation Act (NAGPRA) to protect such cultural items as human remains, associated funerary objects, sacred objects, and objects of cultural patrimony discovered inadvertently during the course of project implementation. In the event that any of the cultural items listed above are discovered during the course of project work, the proponent shall immediately halt the disturbance and contact the BLM within 24 hours for instructions. The proponent or initiator of any project shall be held responsible for protecting, evaluating, reporting, excavating, treating, and disposing of these cultural items according to the procedures established by the BLM in consultation with Indian Tribes."

7. The holder shall be held responsible if noxious weeds become established within the area. Evaluation of growth of the noxious weeds shall be made upon discovery. Weed control will be required on the disturbed lands resulting from this actions, which include the roads, pads and associated pipelines and on adjacent lands affected by the establishment of weeds due to this action.

The holder shall insure that the equipment and or vehicles that will be used to construct, maintain and administer the access roads, well pad, and resulting well are not polluted with invasive and noxious weed seeds. Transporting of invasive and noxious weed seeds could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to construction, maintenance and administration of the access roads, well pad, and resulting well.

The holder is responsible for consultation with the authorized officer and/or local authorities for acceptable weed control methods, which include following EPA and BLM requirements and policy.

8. The holder shall be responsible for maintaining the site in a sanitary condition at all times; waste materials 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.

9. The holder shall conduct all activities associated with the construction, operation and termination of the powerline within the authorized limits.

10. No blading or clearing of any vegetation will be allowed unless approved in writing by the Authorized Officer.

11. The holder shall minimize disturbance to existing fences and other improvements on public lands. The holder is required to promptly repair impacted improvements to at least their former state. The holder shall contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence will be braced on both sides of the passageway prior to cutting of the fence. No permanent gates will be allowed unless approved by the Authorized Officer.

12. Construction trenches left open over night shall be covered. Covers shall be secured in place and shall be strong enough to prevent livestock or wildlife from falling through and into a hole.

13. The holder shall evenly spread the excess soil excavated from trench in the immediate vicinity of the trench structure.

14. The BLM serial number assigned to this right-of-way grant shall be posted in a permanent, conspicuous manner, and be maintained in a legible condition for the term of the right-of-way at all major road crossings and at all serviced facilities. Numbers will be at least two inches high and will be affixed to the pole nearest the road crossing and at the facilities served.

15. Upon cancellation, relinquishment, or expiration of this grant, the holder shall comply with those abandonment procedures as prescribed by the Authorized Officer.

16. All surface structures (poles, lines, transformers, etc.) shall be removed within 180 days of abandonment, relinquishment, or termination of use of the serviced facilities or within 180 days of abandonment, relinquishment, or termination of this grant, whichever comes first. This will not apply where the power line extends to serve an active, adjoining facility or facilities.

17. Special stipulations: The construction of this project would consist of digging a trench to a depth of at least 38 inches. Then installing the power line and covering with backfill dirt. After completing construction of the buried power line, the line shall be marked with underground power line warning signs at least every ¼ mile.

IX. INTERIM RECLAMATION

During the life of the development, all disturbed areas not needed for active support of production operations should undergo interim reclamation in order to minimize the environmental impacts of development on other resources and uses.

Within six (6) months of well completion, operators should work with BLM surface management specialists (Jim Amos: 575-234-5909) to devise the best strategies to reduce the size of the location. Interim reclamation should allow for remedial well operations, as well as safe and efficient removal of oil and gas.

During reclamation, the removal of caliche is important to increasing the success of revegetating the site. Removed caliche that is free of contaminants may be used for road repairs, fire walls or for building other roads and locations. In order to operate the well or complete workover operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing revegetated areas for production or workover operations will be allowed. If there is significant disturbance and

loss of vegetation, the area will need to be revegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

All disturbed areas after they have been satisfactorily prepared need to be reseeded with the seed mixture provided below.

Upon completion of interim reclamation, the operator shall submit a Sundry Notices and Reports on Wells, Subsequent Report of Reclamation (Form 3160-5).

X. FINAL ABANDONMENT & RECLAMATION

At final abandonment, well locations, production facilities, and access roads must undergo "final" reclamation so that the character and productivity of the land are restored.

Earthwork for final reclamation must be completed within six (6) months of well plugging. All pads, pits, facility locations and roads must be reclaimed to a satisfactory revegetated, safe, and stable condition, unless an agreement is made with the landowner or BLM to keep the road and/or pad intact.

After all disturbed areas have been satisfactorily prepared, these areas need to be revegetated with the seed mixture provided below. Seeding should be accomplished by drilling on the contour whenever practical or by other approved methods. Seeding may need to be repeated until revegetation is successful, as determined by the BLM.

Operators shall contact a BLM surface protection specialist prior to surface abandonment operations for site specific objectives (Jim Amos: 575-234-5909).

Ground-level Abandoned Well Marker to avoid raptor perching: Upon the plugging and subsequent abandonment of the well, the well marker will be installed at ground level on a plate containing the pertinent information for the plugged well.

Seed Mixture for LPC Sand/Shinnery Sites

The holder shall seed all disturbed areas with the seed mixture listed below. The seed mixture shall be planted in the amounts specified in pounds of pure live seed (PLS)* per acre. There shall be no primary or secondary noxious weeds in the seed mixture. Seed will be tested and the viability testing of seed will be done in accordance with State law(s) and within nine (9) months prior to purchase. Commercial seed will be either certified or registered seed. The seed container will be tagged in accordance with State law(s) and available for inspection by the authorized officer.

Seed will be planted using a drill equipped with a depth regulator to ensure proper depth of planting where drilling is possible. The seed mixture will be evenly and uniformly planted over the disturbed area (smaller/heavier seeds have a tendency to drop the bottom of the drill and are planted first). The holder shall take appropriate measures to ensure this does not occur. Where drilling is not possible, seed will be broadcast and the area shall be raked or chained to cover the seed. When broadcasting the seed, the pounds per acre are to be doubled. The seeding will be repeated until a satisfactory stand is established as determined by the authorized officer. Evaluation of growth will not be made before completion of at least one full growing season after seeding.

Species to be planted in pounds of pure live seed* per acre:

<u>Species</u>	<u>lb/acre</u>
Plains Bristlegrass	5lbs/A
Sand Bluestem	5lbs/A
Little Bluestem	3lbs/A
Big Bluestem	6lbs/A
Plains Coreopsis	2lbs/A
Sand Dropseed	1lbs/A

*Pounds of pure live seed:

Pounds of seed x percent purity x percent germination = pounds pure live seed