

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Tony Delfin
Deputy Cabinet Secretary

David Catanach, Director
Oil Conservation Division



Response Required - Deadline Enclosed

Field Inspection Program
"Preserving the Integrity of Our Environment"

20-Oct-16

VANGUARD OPERATING, LLC
5847 SAN FELIPE, SUITE 3000
HOUSTON TX 77057

LETTER OF VIOLATION - Inspection

Dear Operator:

The following inspection(s) indicate that the well, equipment, location or operational status of the well(s) failed to meet standards of the New Mexico Oil Conservation Division as described in the detail section below. To comply with standards imposed by Rules and Regulations of the Division, corrective action must be taken immediately and the situation brought into compliance. The detail section indicates preliminary findings and/or probable nature of the violation. This determination is based on an inspection of your well or facility by an inspector employed by the Oil Conservation Division on the date(s) indicated.

Please notify the proper district office of the Division, in writing, of the date corrective actions are scheduled to be made so that arrangements can be made to reinspect the well and/or facility.

INSPECTION DETAIL SECTION

| MACHO FEDERAL No.003 | | | | O-7-7S-23E | 30-005-61087-00-00 | |
|-------------------------|------------------|---|------------|------------------------------|---------------------------|----------------|
| Inspection Date | Type Inspection | Inspector | Violation? | *Significant Non-Compliance? | Corrective Action Due By: | Inspection No. |
| 10/20/2016 | Routine/Periodic | Gilbert Cordero | Yes | No | 1/23/2017 | iUNK1629443632 |
| Comments on Inspection: | | No Well Sign (Rule 19.15.16.8). FIRE HAZARD MUST BE CLEARED AT LEAST 150' FROM WELL RULE 19.15.10.8 | | | | |

| ROUND TOP STATE No.006 | | | | L-10-7S-23E | 30-005-61542-00-00 | |
|-------------------------|------------------|---|------------|------------------------------|---------------------------|----------------|
| Inspection Date | Type Inspection | Inspector | Violation? | *Significant Non-Compliance? | Corrective Action Due By: | Inspection No. |
| 10/20/2016 | Routine/Periodic | Gilbert Cordero | Yes | No | 1/23/2017 | iUNK1629446238 |
| Comments on Inspection: | | FIRE HAZARD RULE 19.15.10.8, MUST BE CLEARED TO AT LEAST 150' FROM WELL | | | | |

In the event that a satisfactory response is not received to this letter of direction by the "Corrective Action Due By:" date shown above, further enforcement will occur. Such enforcement may include this office applying to the Division for an order summoning you to a hearing before a Division Examiner in Santa Fe to show cause why you should not be ordered to permanently plug and abandon this well.

Sincerely,

Gilbert Cordero
Compliance Officer

Artesia OCD District Office

Note: Information in Detail Section comes directly from field inspector data entries - not all blanks will contain data.

*Significant Non-Compliance events are reported directly to the EPA, Region VI, Dallas, Texas.