

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Oxy USA INC. Well Name & No: Gov't 5 Com #9
Location: 660 P N L & 660 P E L; SEC. 3; T20S; R28 E.
Lease No: NM-8818; County: Eddy

The conditions of approval (COA) check marked below are applicable to the above described well.

Capitan Controlled Water Basin

I. DRILLING OPERATIONS REQUIREMENTS:

The Bureau of Land Management office is to be notified at (505) 887-6544 for wells in Eddy County, and at (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

☒ 1. Spudding ☒ 2. Cementing casing: 13 3/8 inch 8 5/8 inch 5 1/2 inch
☐ 3. BOP tests. **NOTE:** Whenever a casing string is cemented in the R-111-P Potash area, cement shall be allowed to stand a minimum of twelve hours under pressure and a total of twenty four (24) hours before drilling the plug or initiating tests.

II. CASING:

☒ 13 3/8 inch surface casing should be set at about 400 feet, below usable surface water, and cemented to the surface. If cement does not circulate to the surface the BLM office will be notified and a temperature survey or cement bond log will be run to verify the top of cement. Remedial cementing will be completed prior to resuming drilling operations.
☒ Minimum required fill of cement behind the 8 5/8 inch intermediate casing is to TIE BACK INTO THE SURFACE CASING.
☒ Minimum required fill of cement behind the 5 1/2 inch production casing is to ± 600' ABOVE UPPERMOST HYDROCARBON BEARING FORMATION.

III. PRESSURE CONTROL:

☒ Before drilling below the 13 3/8 inch surface casing, the blowout preventer assembly will consist of a minimum of:
☒ One annular Preventer and ~~and~~ ☒ Two ram-type preventers
☒ Kelly Cock/Stabbing Valve.
☒ The approved blowout preventer and related equipment (BOPE) shall be installed before drilling below the 8 5/8 inch casing.
☒ After setting the 8 5/8 inch casing string, and before drilling into the WOLFECAMP formation, the blowout preventers and related control equipment shall be pressure-tested as described in Onshore Oil and Gas Order No. 2. Any equipment failing to test will be repaired or replaced. The checked items apply:
☒ The test will be conducted by an independent service company.
☒ The results of the test will be reported to the appropriate BLM office.
☒ The Bureau of Land Management office is to be notified in sufficient time for a representative to witness the test.
☒ Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, will be installed and operating before drilling into the WOLFECAMP formation, and will be used until production casing is run and cemented. Monitoring equipment will consist of the following:
☒ A recording pit level indicator to indicate volume gains and losses.
☒ Flow-sensor on the flow-line to warn of abnormal mud returns from the well.

IV. OTHER:

☐ H2S Drilling Plan should be activated prior to drilling into the _____ formation. A copy of the plan shall be posted at the drilling site.
☐ Gamma-Ray/Neutron logs shall be run from the base of the Salado formation to the surface; cable speed not to exceed 30 feet per minute.
☒ A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any oil/gas sales.