

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



30-015-40998
 Lea C Federal #19
 Capstone Natural Res.
 LLC

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]**
- [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]**
- [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]**
- [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]**
- [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]**
- [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]**

- [1] **TYPE OF APPLICATION - Check Those Which Apply for [A]**
- [A] Location - Spacing Unit - Simultaneous Dedication Capstone Natural Resources, LLC
Lea C Federal 19
30-015-40998
 NSL NSP SD
- Check One Only for [B] or [C]
- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR
- [D] Other: Specify _____

- [2] **NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply**
- [A] Working, Royalty or Overriding Royalty Interest Owners
- [B] Offset Operators, Leaseholders or Surface Owner
- [C] Application is One Which Requires Published Legal Notice
- [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Brian Wood

Consultant

3-17-13

Print or Type Name

Signature

Title

Date

brian@permitswest.com

e-mail Address

**REQUEST FOR ADMINISTRATIVE APPROVAL
NONSTANDARD LOCATION
CAPSTONE NATURAL RESOURCES, LLC
LEA C FEDERAL 19
1210' FNL & 1310' FWL
SECTION 11, T. 17 S., R. 31 E., EDDY COUNTY, NM
API 30-015-40998**

I. This oil well (see APD as Exhibit A) is on BLM surface and BLM oil and gas lease NMLC-029418B (1,200 acres). The well is 1,210' from the closest lease line (Exhibit B). The proposed oil well is nonstandard for the Grayburg Jackson; SR-Q-G-SA (Pool 28509) due to land uses (Chevron and COG wells, roads, pipelines, and power lines) and to minimize potential impact to sand dune lizard habitat (Exhibit C). New road will be only 100' long.

Capstone requests a nonstandard location due to land uses and natural resource conservation issues. A standard location must be at least 330' from the quarter-quarter line. The well bore is 10' from the east quarter-quarter line and 110' from the south quarter-quarter line (see C-102 as EXHIBIT D). It is 320' too far east and 220' too far south.

II. Form C-102 showing the well and 40 acre pro ration unit (NWNW Section 11) is attached as Exhibit D.

Exhibit E shows the existing Grayburg Jackson; SR-Q-G-SA acreage dedications (dashed lines). The well encroaches 320' too far east and 220' too far south toward the SWNW and E2NW4 Section 11. The encroachments are part of the same lease.

Capstone operates all Grayburg Jackson; SR-Q-G-SA wells in the NWNW Section 11 and three bordering or cornering quarter-quarters, all of which are in Section 11 and on the same lease. There is common ownership in the Grayburg Jackson; SR-Q-G-SA in the affected quarter-quarters.

Closest Grayburg Jackson; SR-Q-G-SA well is Capstone's P&A Lea C 3 (30-015-05131), which is 851' northwest at 660' FNL & 660' FWL Section 11. Closest producing Grayburg Jackson; SR-Q-G-SA well is Capstone's Lea C 1 (30-015-05129), which is 866' northeast at 660 FNL & 1980 FWL Section 11.

III. The oil and gas lease boundary is shown on EXHIBIT B. The well encroaches to the east, southeast, and south. The encroachments are part of the same BLM lease. Eight existing Grayburg Jackson; SR-Q-G-SA pro ration units (see Exhibit E) touch the proposed pro ration unit. All three in Section 11 are Capstone operated. There is common ownership of the Grayburg Jackson; SR-Q-G-SA working interest in the quarter-quarter (NWNW Section 11) in which the well is located, the quarter-quarters (NENW & SWNW Section 11) toward which the well encroaches, and the closest cornering quarter-quarter (SENW Section 11). This information is current and correct.

IV. Exhibit E shows the proposed well, proration unit, and all wells. Grayburg Jackson; SR-Q-G-SA wells are circled. Capstone does not believe directional drilling to a standard location from an existing pad is cost effective for this well.

V. Land uses (Chevron and COG wells and their roads and pipelines, plus three Central Valley Electric power lines, Frontier pipeline, and Holly pipeline) and natural resource conservation issues (minimize possible impact to sand dune lizard habitat) prevent a standard location.

VI. Archaeology is not an issue.

VII. Natural resource conservation issues (minimize potential impact to sand dune lizard habitat) and land uses (three existing wells, roads, power lines, pipelines) prevent a standard location.

VIII. Capstone does not believe directional drilling to a standard location is cost effective for this well.

IX. I hereby certify that there is common ownership and partner approval of the Grayburg Jackson; SR-Q-G-SA working interest in the lease which comprises the proposed 40 acre spacing unit (NWNW Section 11), the adjacent quarter-quarters (NENW & SWNW Section 11) of the sides toward which it encroaches, and the single closest corner to the proposed well (SENW Section 11) toward which it encroaches and that the information is current and correct. Therefore, notice to any affected party is not required.

B Wood

Brian Wood, Consultant

3-17-13

Date

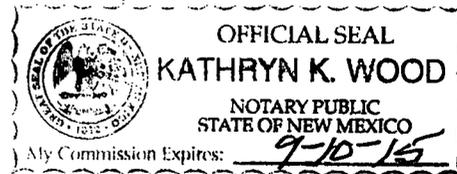
STATE OF NEW MEXICO)
) SS:
COUNTY OF SANTA FE)

The foregoing instrument was acknowledged before me this 17th day of March, 2013 by Brian Wood. Witness my hand and official seal.

Kathryn K. Wood
Notary Public

My Commission Expires: *9-10-15*

Business Address: 37 Verano Loop, Santa Fe, NM 87508



cc: OCD (Artesia & Santa Fe), Seglem

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.
NMLC-029418B

6. If Indian, Allottee or Tribe Name
N/A

7. If Unit or CA Agreement, Name and No.
N/A

8. Lease Name and Well No.
LEA.C.FEDERAL.19

1a. Type of work: DRILL REENTER

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

2. Name of Operator: CAPSTONE NATURAL RESOURCES, LLC

9. API Well No.
30-015-40998

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
GRAYBURG JACKSON, SR-Q-G-SA

4. Location of Well (Report location clearly and in accordance with any State requirements.)
At surface: 1210' FNL & 1310' FWL
At proposed prod. zone: SAME

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

14. Distance in miles and direction from nearest town or post office*
4 AIR MILES W 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)
1210'

17. Spacing Unit dedicated to this well
NWNW

18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft.
371' (Tea Mack 11 #28)

20. BLM/BIA Bond No. on file
NMB000879

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

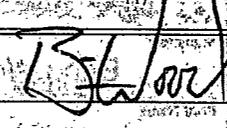
22. Approximate date work will start*
12/26/2012

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:

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

25. Signature:  Name (Printed/Typed): BRIAN WOOD (505 466-8120) Date: 11/21/2012

Title: CONSULTANT (FAX 505 466-9682)

Approved by (Signature): _____ Name (Printed/Typed): _____ Date: _____

Title: _____ Office: _____

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon. Conditions of approval, if any, are attached.

Title 18, U.S.C. Section 1001 and Title 43, U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Continued on page 2)

*(Instructions on page 2)

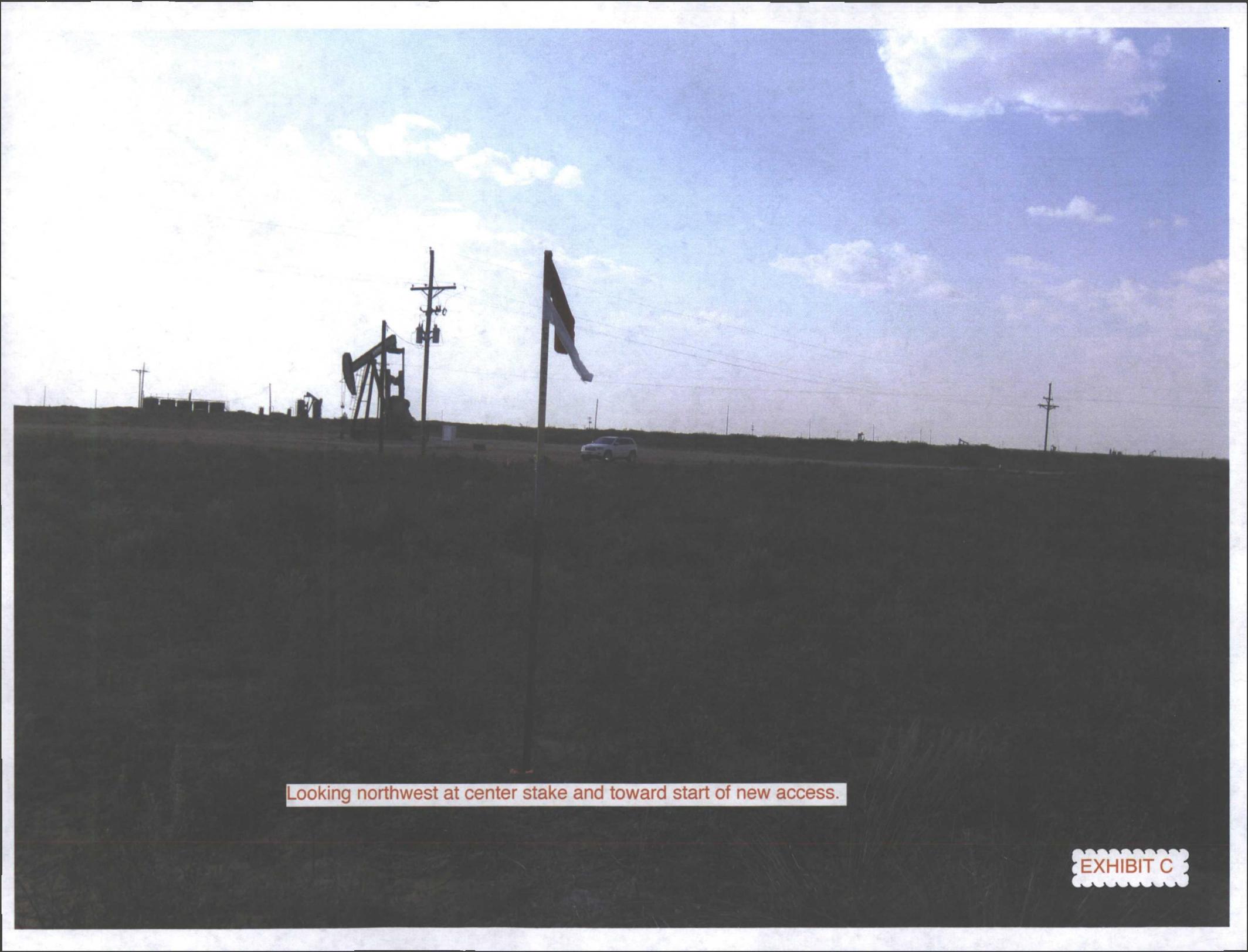
EXHIBIT A

Lea C Federal 19

lease

EXHIBIT B





Looking northwest at center stake and toward start of new access.

DISTRICT I
1625 N. French Dr., Hobbs, NM 88240
Phone: (575) 393-6161 Fax: (575) 393-0720

DISTRICT II
811 S. First St., Artesia, NM 88210
Phone: (575) 748-1283 Fax: (575) 748-0720

DISTRICT III
1000 Rio Brazos Rd., Artesia, NM 88210
Phone: (505) 334-6176 Fax: (505) 334-6170

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3460 Fax: (505) 476-3462

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

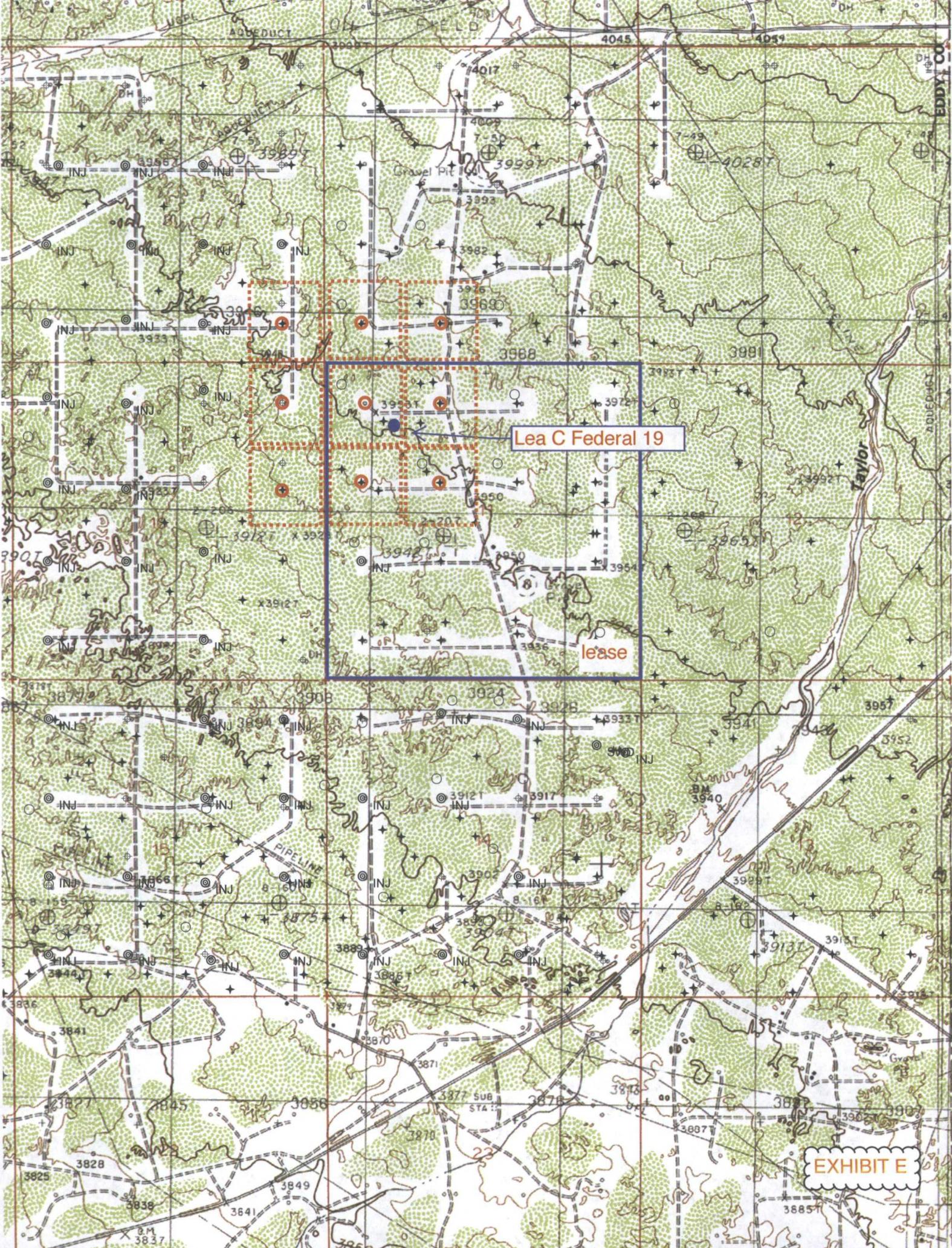
Form C-102
Revised August 1, 2011
Submit one copy to appropriate
District Office
 AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-015		Pool Code 28509		Pool Name GRAYBURG JACKSON, SR-Q-G-SA					
Property Code 20880		Property Name LEA C FEDERAL						Well Number 19	
OGRID No. 289372		Operator Name CAPSTONE NATURAL RESOURCES, LLC						Elevation 3951'	
Surface Location									
UL or lot no. D	Section 11	Township 17 S	Range 31 E	Lot Idn	Feet from the	North/South line NORTH	Feet from the	East/West line WEST	County 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.

<p>LEA C FEDERAL 19 SHL NMSP-E (NAD 83) Y = 674429.6' N X = 691407.7' E N-LAT = N32° 51' 11.07" W-LONG = W103° 50' 40.71" NMSP-E (NAD 27) Y = 674365.4' X = 650229.2' LAT = N 32.852958297° LONG = W 103.844134445°</p> <p>1310'</p>	<p>OPERATOR CERTIFICATION 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.</p> <p><i>Brian Wood</i> 11-21-12 Signature Date Brian Wood Print Name brian@permitswest.com E-mail Address</p>	
	<p>SURVEYORS CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>JUNE 27, 2012 Date of Survey Signature and Seal of Professional Surveyor <i>James E. Tompkins</i> EXHIBIT D JAMES E. TOMPKINS REGISTERED PROFESSIONAL LAND SURVEYOR 14729</p>	
	<p>Job No. WTC48591 JAMES E. TOMPKINS 14729 Certificate Number</p>	
	<p>James E. Tompkins</p>	



Lea C Federal 19

lease

EXHIBIT E

EDDY CO

Taylor

ABSEDUCT

PIPELINE

GROWL PIT

SUB STA