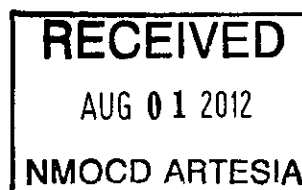


Mr. Keith Cannon
Drilling Superintendent
NADEL AND GUSSMAN HEYCO, LLC
PO Box 1936
Roswell, New Mexico 88202

31 July 2012

Mr. Mike Bratcher
OIL CONSERVATION DIVISION
District 2
811 South First Street
Artesia, NM 88210



Re: Rock Island 16 State No. 1H CAP Land Farming Progress Report **API No.: 30-015-38461**
S16 T18S R26E 2260' FNL 1650' FEL, Eddy County, New Mexico **2RP-1057-0**

Dear Mr. Bratcher:

On 7 March 2012, at approximately 1430 Hrs., Nadel and Gussman HEYCO, LLC (NGH) experienced a release from the Rock Island 16 State No.1H well at approximately 2,000' during active workover operations. Since this time, NGH has engaged in a very positive and on-going working relationship for the remediation of impacted University lands with the New Mexico State University, Agricultural Science Center (NMSUASC) located in Artesia, New Mexico.

For the past several months, Dr. Robert Flynn, Superintendent of the NMSUASC, has actively participated in NGH's remediation decisions for impacted areas. On 11 April 2012, NGH sent NMOCD an updated report for completely remediated areas as sited in the Corrective Action Plan (CAP) which included removal of hydrocarbon contaminated areas (1) on the active drilling pad; (2) on affected ingress and egress areas adjacent to the current lease road and (3) on other appropriate effected lands which remained outside of the containment areas.

NGH immediately activated emergency efforts to contain the loss of fluid when the well was actively discharging. The construction of two containment areas was also necessary because well control efforts mandated safety, which necessitated spraying a significant volume of water onto the active drilling pad for immediate containment. The success of this process is evident when one considers that the dilution of the released hydrocarbon by the water being sprayed (CUDD Well Control) at the wellhead made a remarkable difference in lowering actual hydrocarbon and soil chloride values.

Subsequently, Dr. Flynn and NGH consulted on all remediation possibilities for the containment areas with the resolution to treat effected soils in place. NMSUASC chose land farming the effected areas to the north, such that the native soils could be treated and successfully remediated in place without introduction of foreign materials, which would result if it were hauled off. Since this time, and with the cooperation of NMOCD, NGH and NMSUASC, all remediation work has focused

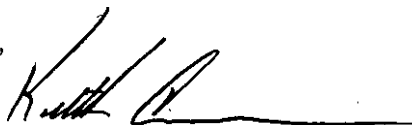
on the incredible opportunity to return this small area to its pre-existing condition, as closely as possible.

Today, these previously existing containment sites have been comingled and spread out within NGH's authorized boundary at the request of Dr. Flynn, allowing for a significantly more rapid maturation of the land farmed material. The consistently high summer temperatures encouraged NMSUASC and NGH to seed this area with the NMSUASC's approved seed mix. Currently, the seeds are sprouting and establishing a solid cover of growth over the entire area.

However, it is still too premature to discuss this aspect of the remediation in detail. All discussions regarding the final disposition of the land farm will be addressed in the Final Remediation Report (FRR) along with sampling results, following inspection and approval by NMOCD.

Should you have questions, please call 432-425-7386.

Sincerely,

A handwritten signature in black ink, appearing to read 'Keith Cannon', followed by a horizontal line.

Keith Cannon
Drilling Superintendent

Enclosures: Sample analyticals, photos