



Ray Powell, M.S., D.V.M.
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760
Fax (505) 827-5766
www.nmstatelands.org

May 7, 2012

Cobalt Operating, LLC
C/O Permits West
37 Verano Loop
Santa Fe, NM 87508

Attn: Brian Wood

RE: State Salt Water Disposal Easement No. SWD-317 (Consolidated State #3)

Dear Mr. Wood,

Enclosed for your records is a fully executed original of the above referenced salt water disposal easement.

If I can be of further assistance regarding this lease, please feel free to call me at (505) 827-5773.

Sincerely,

A handwritten signature in black ink, appearing to read "Nick Jaramillo".

Nick Jaramillo, Management Analyst
Rights of Way and Water Resources Bureau

Enclosures

cc: Lease File SWD-317

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 4
Submitted by:
COBALT OPERATING, LLC.
Hearing Date: May 10, 2012



NEW MEXICO STATE LAND OFFICE
RIGHTS OF WAY AND WATER RESOURCES BUREAU
PO Box 1148, Santa Fe, NM 87504-1148

SALT WATER DISPOSAL EASEMENT

SALT WATER DISPOSAL
EASEMENT NO. **SWD-**317

THIS EASEMENT, dated this 26th day of April, 2012, made and entered into between the New Mexico Commissioner of Public Lands, hereinafter called the Commissioner, and Cobalt Operating, LLC of 3001 North Big Spring, Suite 207 Midland, TX 79705, hereinafter called the Grantee.

WITNESSETH:

THAT, whereas, the Grantee has filed in the State Land Office an application for a salt water disposal easement along with the sum of \$ 2,000.00, and a \$30.00 application fee;

NOW, THEREFORE, pursuant to NMAC 19.2.11 (Relating to Salt Water Disposal Site Easements), the Commissioner grants the Grantee an easement for the sole and only purpose of underground disposal of produced water as defined in NMAC 19.15.1.7(P)(8) (hereinafter, "Salt Water"). This Easement shall cover the following described lands (the "Easement Property):

INSTITUTION	SECTION	TWP	RANGE	SUBDIVISION	ACRES
M.H.	9	17 South	37 East	Pt. NE1/4NW1/4	0.354

WELL NAME: Consolidated State #3

API NUMBER: 30-025-29711

TO HAVE AND TO HOLD for a term of 5 year(s), beginning on the date of this Easement, subject to all terms and conditions set forth below:

GENERAL.

1. **Commercial/Non-Commercial Facility.** This Easement is granted for

Non-commercial Salt Water disposal

Commercial Salt Water disposal

To the extent that this Easement is granted for non-commercial Salt Water disposal, the Grantee represents and warrants that (i) some or all of the Salt Water disposed of under this Easement is produced from oil and gas wells operated by the Grantee or in which the Grantee has an ownership interest, or the producer of the Salt Water has an ownership interest in the Easement Property; and (ii) the Grantee will not receive compensation for the disposal of Salt Water under this Easement for the purpose of generating a net profit from its operations under this Easement. Notwithstanding the foregoing, the Grantee may request that the Commissioner exempt some or all of its operations from the scope of that representation and warranty without reclassification of the Easement or payment of an increased annual fee or disposal fee, based on demonstrated need.

2. **Annual Fee.** The Grantee shall pay the Commissioner an annual fee on or before the date of this Easement as set forth above, and on or before the 30th day following each Anniversary Date for each year in which this Easement is in effect as follows

Non-commercial Easement: \$2,000.00

Commercial Easement: \$10,000.00

If this Easement is relinquished, cancelled or otherwise terminated prior to the end of the term set forth above, the annual fee shall not be prorated, reduced or refunded for any part any year during which the Easement is in effect.

3. **Disposal Fee.** The Grantee shall pay the Commissioner for each barrel of Salt Water injected into the Easement property as follows:

Non-commercial Easement: \$0.02 per barrel

Commercial Easement: \$0.10 per barrel

Notwithstanding the foregoing, no disposal fee shall be payable for the disposal of Salt Water produced from a well that has been certified as a stripper well by the New Mexico Oil Conservation Division (NMOCD) pursuant to the New Mexico Natural Gas and Crude Oil Production Incentive Act. The number of barrels injected shall be calculated on a monthly basis. Payment of the disposal fee shall be due annually on or before March 1 for the prior calendar year (January 1 through December 31) or, if this Easement is relinquished, cancelled or expires, within 45th days following the relinquishment, cancellation or expiration of this Easement. To the extent that the payment reflects a claim of exemption on the grounds that stripper well Salt Water has been disposed of, the Grantee shall provide documentation showing the source and amount of stripper well Salt Water disposed of.

4. **Payment Submittal.** Payment of all sums due hereunder shall be made at the office of the Commissioner of Public Lands, and mailed to the Director of Surface Resources, New Mexico State Land Office, 310 Old Santa Fe Trail, P.O. Box 1148, Santa Fe, New Mexico 87504-1148.

5. **Operational Limitations.** This Easement does not authorize any use of the Easement Property other than that which is reasonably necessary to the disposal of Salt Water. The Grantee's surface operations shall be conducted in accordance with the standards and procedures set forth in NMAC § 19.2.100.66, to the extent applicable; provided that those standards shall not modify any of the specific terms and conditions set forth in this Easement. In addition, the Grantee shall conduct its operations under this Easement in a manner that minimizes adverse effects on surface resources and prevents unnecessary or unreasonable surface resource disturbance. Non-essential or non-functional equipment shall not be

stored on the Easement Property for a period greater than sixty (60) days. Except as specified in this paragraph 5, the Grantee shall not cause or permit any Hazardous Waste (as defined in Section 74-4-3(K) NMSA 1978) to be used, kept, stored, generated or disposed of in, under or upon, the Easement Property. This prohibition is not intended to prevent the use or temporary storage of reasonable amounts of oil, petroleum products, regulated NORM (naturally occurring radioactive material) or other chemicals necessary for the Grantee's ordinary day-to-day operations under the terms of this Easement, provided such materials are used and stored in compliance with all applicable laws and regulations.

6. **Spill Prevention Practices and Infrastructure.** The Grantee shall use all reasonably necessary safeguards to prevent contamination or pollution of soil, surface waters, and groundwater. Without limiting the foregoing, the Grantee shall (i) install a containment basin (such as a drum, barrel or a lined sump) of sufficient capacity under all areas where Salt Water is unloaded from a tank truck, and maintain it free of liquids; and (ii) place all newly installed pumps and motors on a bermed, impermeable surface. If the well has not previously been used for Salt Water disposal or the Grantee at any time replaces all existing tank batteries, the Grantee shall place all newly installed tanks, drums and other vessels containing Salt Water or other liquids on a bermed impermeable surface.
7. **Leak and Spill Reporting and Remediation.** The Grantee shall promptly provide to the Commissioner all spill notices given to NMOCD, and further covenants and warrants to the Commissioner that it shall complete all corrective actions directed by NMOCD.
8. **Environmental Contamination.** The Grantee assumes all liability and responsibility for the abatement or remediation of surface, subsurface, surface water or groundwater contamination caused by the Grantee's operations under this Easement when such abatement or remediation is required by law or court order or judgment.
9. **Immediate Cessation of Operations In the Event of An Environmental or Health and Safety Threat.** In the event of a substantial and imminent environmental or health and safety threat caused by, connected with, or affecting the Grantee's operations under this Easement, the Commissioner may direct the Grantee to cease its operations on the Easement Property. For purposes of this paragraph, the ordinary and expected consequences of Salt Water disposal in accordance with the terms of this Easement shall not be considered a basis for invoking this authority.
10. **Operational Documentation.** The Grantee shall (i) maintain appropriate records, books and accounts regarding its operations under this Easement; (ii) make them available for inspection by the Commissioner or his representative; and (iii) provide copies at the request of the Commissioner or his representative.
11. **Inspection.** The Commissioner or his agent shall have the right to enter the Easement Property at any time to inspect and to ensure compliance with the terms and conditions of this Easement.
12. **Improvements.** The Grantee may make or place such improvements and equipment upon the Easement Property as are reasonably necessary to dispose of Salt Water, subject to the requirements for removal of improvements and equipment set forth in Paragraph 21, below.
13. **Water Rights.** The Grantee's disposal of Salt Water under this Easement is not intended to create any right in the Grantee to future diversion, appropriation or use of the Salt Water.
14. **Signage.** The Grantee shall at all times post a sign in a permanent, conspicuous location at the Easement Property. At a minimum, the sign shall state the Grantee's name, the American Petroleum Institute (API) well number, the legal location by township, range, section and quarter-quarter of

section, and an emergency contact number for the Grantee. The sign will be maintained in legible condition for the term of the Easement.

15. **Surrender of Easement.** With the consent of the Commissioner and payment of a non-refundable application fee of thirty dollars (\$30.00), the Grantee may surrender or relinquish the Easement to the Commissioner; provided, however, that relinquishment shall not relieve or discharge obligations accrued by Grantee as of the date of relinquishment, including the obligation to reclaim the surface, revegetate the surface and indemnify the Commissioner in accordance with the terms of this Easement and to pay the disposal fee required under Paragraph 2, above.
16. **Assignment of Easement.** With the prior written consent of the Commissioner, the Grantee may assign this Easement in whole only. Upon approval of the assignment by the Commissioner, the Grantee shall be relieved from all obligations to the Commissioner with respect to the Easement, and the Commissioner shall likewise be relieved from all obligations to the original Grantee. The assignee shall succeed to all of the rights and privileges of the Grantee hereunder and shall be held to have assumed all of the duties and obligations of the Grantee to the Commissioner (including payment of accrued unpaid disposal fees for water injected up to and after the date of the assignment), except that the Commissioner reserves the right to increase the annual fee and/or disposal fee to be payable by the assignee under Paragraphs 3 and 4, above.
17. **Cancellation.** This Easement is subject to cancellation upon the failure of the Grantee or assignee to pay the annual fee or disposal fee or the Grantee or assignee's violation of any of the terms or covenants of this Easement. The Commissioner shall first mail to the Grantee or assignee, by certified or registered mail, addressed to the post office address of the Grantee or assignee shown by current SLO records, a notice of default and intention to cancel the Easement. If the default is not cured within sixty (60) days after written notice of the default is mailed by the Commissioner, the Commissioner may cancel the Easement. Notwithstanding any such cancellation, all accrued obligations of the Grantee to remove improvements and equipment, to perform surface reclamation and revegetation and to indemnify the Commissioner shall remain until fully performed.
18. **Renewal.** This Easement shall be renewed for an additional term equal to that set forth above at annual fee and disposal fee rates published by the Commissioner for such additional periods, unless written notice of the intent not to renew is mailed by the Commissioner, the Grantee or assignee at least sixty (60) days prior to the expiration of this Easement.
19. **Closure.** Upon termination of Grantee's disposal operations, and in the absence of an assignment of this Easement by Grantee or the continuation of disposal operations by another party, the Grantee shall comply with the reclamation standards and procedures set forth in NMAC § 19.2.100.67.
20. **Bond.** Before commencing any operations under this Easement, including surface disturbance or drilling, the Grantee shall execute and file with the Commissioner a good and sufficient bond or other surety in an amount not less than \$10,000 in favor of the state of New Mexico, for the benefit of the state of New Mexico and the state's contract purchasers, patentees and surface lessees. The bond or surety shall secure the Grantee's performance of its obligations under this Easement and the Grantee's payment to the extent allowed by law for surface and improvement damages caused by Grantee's operations under this Easement. The Grantee may comply with this Paragraph 15 by showing that it has provided a \$25,000 bond (megabond) covering its obligations under multiple permits or other instruments pertaining to the use of state trust lands. The Grantee or assignee shall maintain such bond in effect during the term of this Easement and any renewal.
21. **Removal of improvements or equipment:** Within one hundred eighty (180) days of the termination or

expiration of this Easement, the Grantee or assignee shall remove such improvements and equipment as can be removed without material injury to the Easement Property. The Commissioner shall extend the 180-day period upon good cause shown. For purposes of Sections 19-7-14 and 19-10-28 NMSA 1978, any improvements remaining at the end of such period shall be deemed abandoned, and no payments shall be due pursuant to those sections for such remaining improvements.

22. **Compliance with Other Laws.** The Grantee shall at its own expense comply with all applicable regulations and rules of the Commissioner and all applicable laws, regulations, rules, ordinances and requirements of governmental authorities and agencies in all matters and things affecting the Easement Property and operations thereon.
23. **Indemnity.** The Grantee shall save, hold harmless, indemnify, and defend the Commissioner and the State of New Mexico, and any of their employees, agents, contractors, and surface lessees, in both their official and individual capacities, from any and all liability, claims, losses, damages, or expenses arising from (i) the occupancy or use of the Easement Property by the Grantee or the Grantee's employees, agents, contractors or invitees; (ii) the operations or presence on the Easement Property, or on adjacent or proximate state trust lands, for the purposes of this Easement, of the Grantee or Grantee's employees, agents, contractors or invitees; or (iii) the presence of Hazardous Waste in, under, upon or otherwise affecting the Easement Property or adjacent or proximate property as a result of the Grantee's operations under this Easement.
24. **Insurance.** The Grantee shall provide to the Commissioner proof of insurance (or self-insurance) showing coverage as required by this Easement and all amendments and renewals, including any notice of cancellation.
25. **Survival of Terms.** The Grantee's obligations under this Easement shall be binding on the Grantee, its successors, assigns, agents, operators, and contractors. Accrued obligations shall survive the termination, cancellation or relinquishment of this Easement, and any cause of action of the Commissioner to enforce any right, liability, claim, loss, damage or expense under this Easement shall not be deemed to accrue until the Commissioner's actual discovery of said right, liability, claim, loss, damage or expense. All the obligations, covenants, agreements, rights and privileges of this Easement shall extend to and be binding and inure to the benefit of the lawful and recognized assigns or successors in interest of the parties hereof.
26. **Venue.** In any legal action relating to this Easement or its subject matter, the Grantee consents to venue (location) and jurisdiction (authority) in the judicial district where the Easement Property is located, and to service of process under the laws of the State of New Mexico.

IN WITNESS WHEREOF, the Commissioner of Public Lands and the Grantee have signed this Easement to be effective the day and year above written.

GRANTEE:

Cobalt Operating, LLC

By: _____

Brian Wood

Name: _____

Brian Wood

Title: _____

Consultant

(Grantee signature must be notarized on the following page)

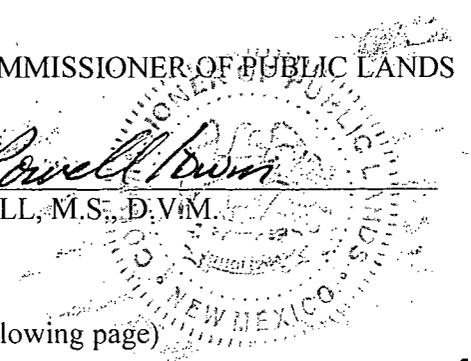
GRANTOR:

NEW MEXICO COMMISSIONER OF PUBLIC LANDS

By: _____

Ray Powell

RAY POWELL, M.S., D.V.M.



ACKNOWLEDGMENT IN AN INDIVIDUAL CAPACITY

State of _____

County of _____

This instrument was acknowledged before me on _____ (date) by
_____ (name).

(Signature of notarial officer)

(seal)

My commission expires: _____

- OR -

ACKNOWLEDGMENT IN A REPRESENTATIVE CAPACITY

State of New Mexico

County of Santa Fe

This instrument was acknowledged before me on 4/29/12 (date) by
Brian Wood (name) as

Consultant (title) of Cobalt Operating, LLC
_____ (name of party on behalf of whom instrument is executed).

Kathryn K. Wood
(Signature of notarial officer)

(seal)

My commission expires: 9-10-15

