

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER


FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

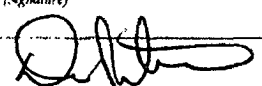
1a Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NMLC-068282b
1b Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2 Name of Operator Manzano, LLC		7. If Unit or CA Agreement, Name and No.
3a Address PO BOX 2107 Roswell, NM 88202	3b. Phone No. (include area code) 575-623-1996	8. Lease Name and Well No. Golden Spur Federal #1 [38720]
4. Location of Well (Report location clearly and in accordance with any State requirements) At surface 330' FSL & 1873' FWL, Sec 25, T26S, R31E At proposed prod zone 330' FNL & 1980' FWL, Sec 25, T26S, R31E (BHL)		9. API Well No. 30-015-39649
10. Field and Pool, or Exploratory Wildcat - Bonesprings [96403]		11. Sec., T. R. M. or B/L and Survey or Area Sec. 25, T26S, R31E
12. Distance in miles and direction from nearest town or post office* 26 miles southwest from Jol, NM		12. County or Parish Eddy County
13. State NM		
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drug unit line, if any) SHL 330' BHL 330'	16. No. of acres in lease 940	17. Spacing Unit dedicated to this well 160
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 107'	19. Proposed Depth MD-13327' TVD- 9000'	20. BLM/BIA Bond No. on file NM-256T 0260
21. Elevations (Show whether DJF, KDB, RT, (R), etc.) 3135'	22. Approximate date work will start* 11/21/2011	23. Estimated duration 35 Days

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No 1, shall be attached to this form:

- Well plan certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall 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 authorized officer.

25. Signature 	Name (Printed/Typed) Paul Ragdale	Date 11/18/2011
Title Operations Manager		

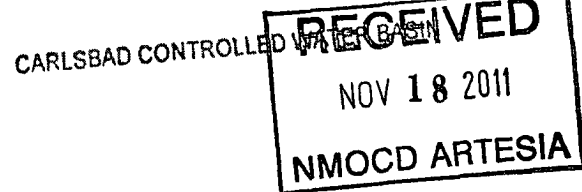
Approved by (Signature) 	Name (Printed/Typed) AFM	Date 11/18/11
Title Office		

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.

*(Instructions on page 2)

WITNESS SURFACE CASING



SEE ATTACHED FOR
CONDITIONS OF APPROVAL

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

dm

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0137
Expires: July 31, 2010

SUNDRY NOTICES AND REPORTS ON WELLS
Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

5. Lease Serial No.
NMLC-068282b

6. If Indian, Allottee or Tribe Name

SUBMIT IN TRIPLICATE - Other instructions on page 2.

1. Type of Well

☒ Oil Well ☐ Gas Well ☐ Other

2. Name of Operator
MANZANO, LLC

3a. Address
P.O. BOX 2017, ROSWELL, NM 88202-2107

3b. Phone No. (include area code)
575-623-1996

4. Location of Well (Fountain, Sec., T., R., M., or Survey Description)
SURF 330 FSL & 1873 FWL, SEC 25-T26S-R31E

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

8. Well Name and No.
GOLDEN SPUR FED #411

9. API Well No.
30-016-38235

10. Field and Pool or Exploratory Area
WILDCAT-BONESPRINGS

11. Country or Parish, State
EDDY, NM

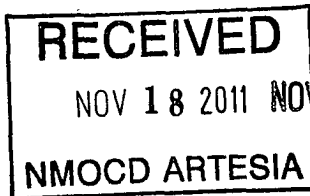
12. CHECK THE APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other SKID RIG
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation. Clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplate horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports must be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 must be filed once testing has been completed. Final Abandonment Notices must be filed only after all requirements, including reclamation, have been completed and the operator has determined that the site is ready for final inspection.)

Notice of Intent to skid rig. After the #1H has been plugged and abandoned. Skid the rig 107' to the west
A revised Drilling plan and plat are attached.

SURFACE: 50 FT pad expansion to the west, approved by Jim Amos 11/17/11. Onsite conducted by Randy Rust 11/17/11.



14. I hereby certify that the foregoing is true and correct.
Name (Printed/Typed)
Paul Ragsdale

Title Engineer

Signature

Date 11/17/2011

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

Title

Date

Conditions of approval, if any, are attached. Approval of this notice 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

Office

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

(Instructions on page 2)

DISTRICT I
1825 N. French Dr., Hobbs, NM 88240

DISTRICT II
1301 W. Grand Avenue, Alameda, NM 88210

DISTRICT III
1000 Ello Brazos Rd., Artes, NM 87410

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised July 16, 2010

Submit one copy to appropriate
District Office

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number 30015-57649	Pool Code 96403	Pool Name WILDCAT; BONE SPRING
Property Code 38720	Property Name GOLDEN SPUR FEDERAL	Well Number 1HY
OGRID No. 231429	Operator Name MANZANO, LLC	Elevation 3135

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	25	26 S	31 E		330	SOUTH	1873	WEST	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
C	25	26 S	31 E		330	NORTH	1980	WEST	EDDY

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
160			

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

	BOTTOM HOLE LOCATION Lat - N 32°01'12.04" Long - W 103°44'01.60" NMSPCE- N 371534.5 E 559359.142 (NAD-83)	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 undivided 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 a voluntary pooling agreement or a compulsory pooling order heretofore entered by the state. Signature: <u>Paul Ragsdale</u> Date: _____ Printed Name: <u>PAUL RAGSDALE</u> E-mail Address: <u>Paul@manzanocenergy.com</u>
	SURVEYOR 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. Date Surveyed: <u>APR 1, 2013</u> Signature & Seal of Professional Surveyor: <u>[Signature]</u> Certificate No. Gary L. Jones 7977 BASIN SURVEYS 24378	

Manzano, LLC
DRILLING AND OPERATIONS PROGRAM

Golden Spur Federal #1H
Surface Location:
330' FSL & 1873' FWL
Section 25, T26S, R31E
Bottom Hole Location
330' FNL & 1980' FWL
Section 25, T26S, R31E
Eddy County, New Mexico

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Manzano LLC submits the following ten items of pertinent information in accordance with BLM requirements.

1. Geological surface formation: Permian

2. The estimated tops of geologic markers are as follows:

Rustler	1010'
Top of Salt	2300'
Base of the Salt	3890'
*Delaware	4100'
*Bone Spring	8170'
Avalon Shale	U Avalon Shale 8270-8720
	L. Avalon Shale 8850-9080
	First Bone Springs 9120'
	Total depth of Pilot Hole 9400'
	TVD lateral-----9000'

3. The estimated depths at which anticipated water, oil or gas formations are expected to be encountered:

A lease map of the surrounding wells is included as Exhibit 2D

Water: Fresh water will be protected by setting surface casing at 1350' and cementing to surface. Fresh water is generally not found in this area but would be at a depth from 150 to 250 feet if it is present.

Hydrocarbons: Oil and gas are anticipated in the above (*) formations. These zones will be protected by casing if necessary.

No other formations are expected to give up oil, gas, or fresh water in measurable quantities. The surface fresh water sands will be protected by setting 13 3/8" casing at 1350' and circulating cement back to surface. Potash/ water sands will be protected by setting 9 5/8" casing at 4100'+/- and circulating cement back to surface.

4. **Well Design Summary** We will set 13 3/8" into the Rustler & 9 5/8" into the top of the Delaware. We then plan to drill a 8.75" pilot hole to 9400', run open hole logs, and set a cement kickoff plug to 8000'. We will then dress off the plug & drill a curve @ 10deg/100' build rate into the lower Avalon Shale to 9266'MD (9000'TVD) & then run 7" casing thru the curve. We will then drill a 4050' lateral to 13327'MD/9000'TVD & run a 20 stage packer system into the lateral. Our plans are to frac the well with a hybrid frac using ~2,000,000# sand & to install a gas lift system when the well quits flowing.

5. **Proposed Casing Program:**

Hole Size	Interval	OD Casing	New or Used	Wt	Collar	Grade	Collapse Design Factor	Burst Design Factor	Tension Design Factor
17.5"	0'-1350'	13 3/8"	New	48#	STC	J55	1.125	1.125	1.6
12.25"	0'-4100'	9 5/8"	New	40	STC	N80	1.125	1.125	1.6
8.75"	0'-9266'md	7"	New	26#	LTC	P-110	1.125	1.125	1.6
6.125	9266'-13,327'	4.5" liner	New	11.6#	LTC	P-110	1.125	1.125	1.6

Proposed Cement Program:

a. **13 3/8" Surface:** 950 sks BJ Lite Class "C" (35:65:4) w/ 5% Salt, 2.5 SMS, 5% MPAS, 1/8#/sk Cello Flake & 5#/sk LCM1 (yd @ 2.15 cuft/sk @ 12.5 PPG). Tail w/ 200 sks Class "C" w/ 2% CaCl2 (yd @ 1.34 cuft/sk @ 14.8 PPG) Using 100 % excess.
Cement will be circulated to surface.

b. **9 5/8" Intermediate:** 1200 sks BJ Lite Class "C" (35:65:4) w/ 5# sk LCM 1 & ¼ #/sk celloflake (yd @ 2.13 cuft/sk @ 12.5 PPG). Tail w/ 200 sks Class "C" Neat (yd @ 1.33 cuft/sk @ 14.8 PPG).
Using 100 % excess, cement will be circulated to surface.

c. **7" Production:** 400 sks BJ Lite Class "H" (35:65:6 w/ 5% salt, 5#/sk LCM1, 5% MPAS, .2% FL52, & .4% SMS (yield @ 2.47 cuft/sk @ 12 PPG). Tail w/ 400 sks Class "H" w/ 1% Salt & .2 % FL52 (yield @ 1.18 cuft/sk @ 15.6 PPG)
Using 100% excess, top of cement will be an estimated 3000' inside the intermediate casing.

d. **4 ½" Liner:** The 4 ½" liner will be run with an anticipated 20 stages of packers/ports system to total depth of the horizontal lateral. The liner will be hung inside the 7" with approximately 200' of overlap. The packers will be set by hydraulic pressure and the rig will be moved off.
NO CEMENT WILL BE RUN ON THE LINER.

The above cement volumes could be revised pending the caliper measurement from the open hole logs. All casing is new and API approved.

6. Minimum Specifications for Pressure Control:

Depth (feet)	Mud Weight (lb/gal)	Anticipated BHP (psig)	Bottom hole temp (deg F)
1350'	8.4	210	70
4100'	10.0	1750	80
7900'	8.8	2600	top of Bone Springs 95
9362' TVD	8.8	3000	Total depth 115

Plan to nipple up on 13 3/8" with a 2M annular system and test to 1000 psig with a 3rd party tester. Nipple up on 9 5/8 with a 11" X 3000 psi system and test to 3000 psig with independent tester.

Pipe rams will be operationally checked each 24 hour period. Blind rams will be operationally checked on each trip out of the hole. These checks will be noted on the daily tour sheets. A 2" kill line and a 3" choke line will be included in the drilling spool located below the ram-type BOP. Other accessories to the BOP equipment will include a Kelly cock, floor safety valve (inside BOP), choke lines and choke manifold with 3000 psi WP rating.

A. All blowout preventer (BOP) and related equipment shall comply with well control requirements as described in Onshore Oil and gas Order No. 2 and API RP 53 Sec. 17.

B. Minimum working pressure of the blowout preventer (BOP) and related equipment required for drilling below the surface casing shoe shall be 2000 (2m) psi.

See Exhibit 3

C. Minimum working pressure of the blowout preventer (BOP) and related equipment required for drilling below the intermediate casing shoe shall be 3000 (5m) psi.

See Exhibit 3A

Exhibit 3B is a schematic of the choke manifold system.

Exhibit 3C is a layout of the drilling rig on location.

D. The appropriate BLM office shall be notified a minimum of 4 hours in advance for a representative to witness the test

- The test shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.
- The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug

7. Mud Program: The applicable depths and properties of this system are as follows:

Depth	Type System	Mud Weight	Viscosity (sec)	Waterloss (cc)
0' – 1350'	Fresh Water Gel	8.4 – 8.9	32-34	N.C.
1350 – 4100'	Brine	10.0 – 10.0	34-36	N.C.
4100'-9700'	Fresh Water Gel	8.4-8.9	32-34	N.C.
9700'-13,600'	Fresh Water Gel	8.4-9.2	32-34	4-10

The necessary mud products for weight addition and fluid loss control will be on location at all time.

8. Auxiliary Well Control and Monitoring Equipment:

- a. A Kelly cock will be in the drill string at all times.
- b. A full opening drill pipe stabbing valve having the appropriate connections will be on the rig floor at all times.
- c. Hydrogen Sulfide detection equipment will be in operation after drilling out the 13 3/8" casing shoe until total depth is reached and isolated from surface. Breathing equipment will be on location upon drilling the 13 3/8" shoe until total depth is reached.

9. Testing, Logging and Coring Program:

- a. No drill stem test are planned
- b. The open hole electrical logging program will be:
 - i. Total Depth to Intermediate Casing: Dual Laterolog-Micro Laterolog and Gamma Ray. Compensated Neutron – Z Density log with Gamma Ray and Caliper.
 - ii. Total Depth to Surface: Compensated Neutron with Gamma Ray
 - iii. No coring program is planned
 - iv. Additional testing will be initiated subsequent to setting the 4 1/2" production casing. Specific intervals will be targeted based on log evaluation, geological sample shows and drill stem tests.

10. Potential Hazards:

- a. No abnormal pressures or temperatures are expected. There is no known presence of H₂S in this area. If H₂S is encountered the operator will comply with the provisions of Onshore Oil and Gas Order No. 6. No lost circulation is expected to occur. All personnel will be familiar with all aspects of safe operation of equipment being used to drill this well. No H₂S is anticipated to be encountered.

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

- 1. All company and Contract personnel admitted on location must be trained by a qualified H₂S safety instructor to the following:
 - a. Characteristics of H₂S
 - b. Physical effects and hazards

- c. Proper use of safety equipment and life support systems
 - d. Principle and operations of H2S detectors, warning system and briefing areas
 - e. Evacuation procedures, routes and first aid
 - f. Proper use of 30-minute pressure demand air pack
2. H2S Detection and alarm System
- a. H2S detectors and audio alarm system to be located at bell nipple, end of blooie line (mud pit) and on derrick floor or doghouse.
3. Windsock and/or wind streamers
- a. Windsock at mud pit area should be high enough to be visible
 - b. Windsock at briefing area should be high enough to be visible
 - c. There should be a windsock at entrance to location
4. Condition Flags and Signs
- a. Warning Sign on access road to location
 - b. Flags to be displayed on sign at entrance to location. Green flag, normal safe condition. Yellow flag indicates potential pressure or danger. Red flag, danger, H2S present in Dangerous concentration. Only emergency personnel admitted to location.
5. Well Control Equipment
- a. See Exhibit 3, 3A, and 3B
6. Communication
- a. While working under masks chalkboards will be used for communication.
 - b. Hand signals will be used where chalk board is inappropriate
 - c. Two way radio will be used to communicate off location in case of emergency help is required. In most cases cellular telephones will be available at most drilling foreman's trailer or living quarters
7. Drilling contractor supervisor will be required to be familiar with the effects H2S has on tubular goods and other mechanical equipment
- If H2S is encountered, mud system will be altered if necessary to maintain control of formation.
 - A mud gas separator will be brought into service along with H2S scavengers if necessary,

Emergency Procedures

In the case of a release of gas containing H2S, the first responders must isolate the area and prevent entry by other persons into the 100 ppm ROE. Additionally the responders must evacuate any public places encompassed by the 100 ppm ROE. First responders must take care not to injure themselves during this operation. Company and/or local officials must be contacted to aid in this operation. Evacuation of the public should be beyond the 100 ppm ROE.

30-015-39649

PECOS DISTRICT CONDITIONS OF APPROVAL

OPERATOR'S NAME:	MANZANO LLC
LEASE NO.:	NMLC068282B
WELL NAME & NO.:	1H GOLDEN SPUR FEDERAL
SURFACE HOLE FOOTAGE:	330' FSL & 1873' FWL
BOTTOM HOLE FOOTAGE:	330' FNL & 1980' FWL
LOCATION:	Section 25, T. 26 S., R.31 E., NMPM
COUNTY:	Eddy County, New Mexico

TABLE OF CONTENTS

Standard Conditions of Approval (COA) apply to this APD. If any deviations to these standards exist or special COAs are required, the section with the deviation or requirement will be checked below.

- ☐ **General Provisions**
- ☐ **Permit Expiration**
- ☐ **Archaeology, Paleontology, and Historical Sites**
- ☐ **Noxious Weeds**
- ☒ **Special Requirements**
 - Phantom Banks Heronries
- ☐ **Construction**
 - Notification
 - Topsoil
 - Closed Loop System
 - Federal Mineral Material Pits
 - Well Pads
 - Roads
- ☐ **Road Section Diagram**
- ☒ **Drilling**
 - Waste Material and Fluids
- ☐ **Production (Post Drilling)**
 - Well Structures & Facilities
 - Pipelines
 - Electric Lines
- ☐ **Interim Reclamation**
- ☐ **Final Abandonment & Reclamation**

I. GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

II. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD. (Filing of a Sundry Notice is required for this 60 day extension.)

III. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator is fully accountable for the actions of their contractors and subcontractors. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized Officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values of the discovery. The operator shall be held responsible for the cost of the proper mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or paleontological resources may result in a shutdown order by the Authorized Officer.

IV. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations. Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

V. SPECIAL REQUIREMENT(S)

Stipulations/Condition of Approval for Phantom Banks Heronries: Surface disturbance will not be allowed within up to 200 meters of active heronries or by delaying activity for up to 120 days, or a combination of both. Exhaust noise from pump jack engines must be muffled or otherwise controlled so as not to exceed 75 db measured at 30 ft. from the source of the noise.

VI. CONSTRUCTION

A. NOTIFICATION

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Carlsbad Field Office at (575) 234-5972 at least 3 working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved APD and Conditions of Approval (COA) on the well site and they shall be made available upon request by the Authorized Officer.

B. TOPSOIL

The operator shall stockpile the topsoil in a low profile manner in order to prevent wind/water erosion of the topsoil. The topsoil to be stripped is approximately 4 inches in depth. The topsoil will be used for interim and final reclamation.

C. CLOSED LOOP SYSTEM

Tanks are required for drilling operations: No Pits.

The operator shall properly dispose of drilling contents at an authorized disposal site.

D. FEDERAL MINERAL MATERIALS PIT

Payment shall be made to the BLM prior to removal of any federal mineral materials. Call the Carlsbad Field Office at (575) 234-5972.

E. WELL PAD SURFACING

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material may be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational needs.

F. ON LEASE ACCESS ROADS

Road Width

The access road shall have a driving surface that creates the smallest possible surface disturbance and does not exceed fourteen (14) feet in width. The maximum width of surface disturbance, when constructing the access road, shall not exceed twenty (20) feet.

Surfacing

Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, the surfacing material may be required to be removed at the time of reclamation.

Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

Crowning

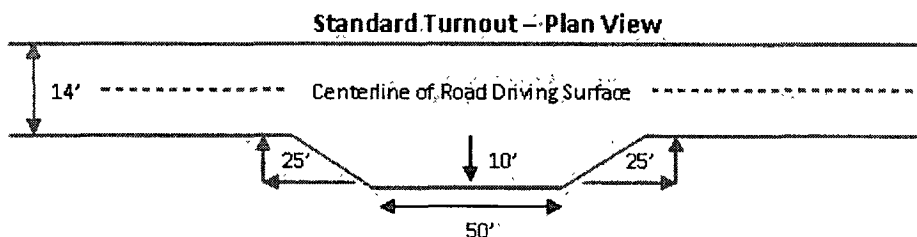
Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

Ditching

Ditching shall be required on both sides of the road.

Turnouts

Vehicle turnouts shall be constructed on the road. Turnouts shall be intervisible with interval spacing distance less than 1000 feet. Turnouts shall be constructed on all blind curves. Turnouts shall conform to the following diagram:

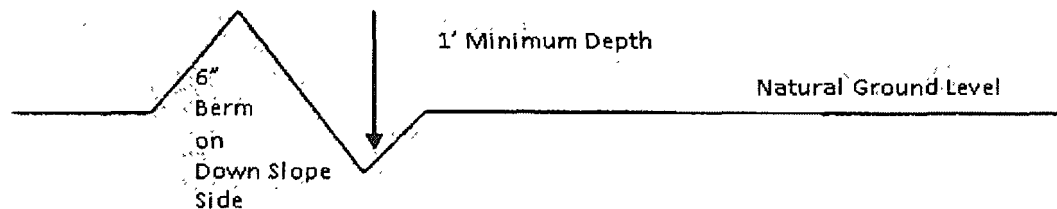


Drainage

Drainage control systems shall be constructed on the entire length of road (e.g. ditches, sidehill outslowing and insloping, lead-off ditches, culvert installation, and low water crossings).

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.

Cross Section of a Typical Lead-off Ditch



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula for Spacing Interval of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

$$400 \text{ foot road with } 4\% \text{ road slope: } \frac{400'}{4\%} + 100' = 200' \text{ lead-off ditch interval}$$

Culvert Installations

Appropriately sized culvert(s) shall be installed at the deep waterway channel flow crossing.

Cattleguards

An appropriately sized cattleguard(s) sufficient to carry out the project shall be installed and maintained at fence crossing(s).

Any existing cattleguard(s) on the access road shall be repaired or replaced if they are damaged or have deteriorated beyond practical use. The operator shall be responsible for the condition of the existing cattleguard(s) that are in place and are utilized during lease operations.

A gate shall be constructed and fastened securely to H-braces.

Fence Requirement

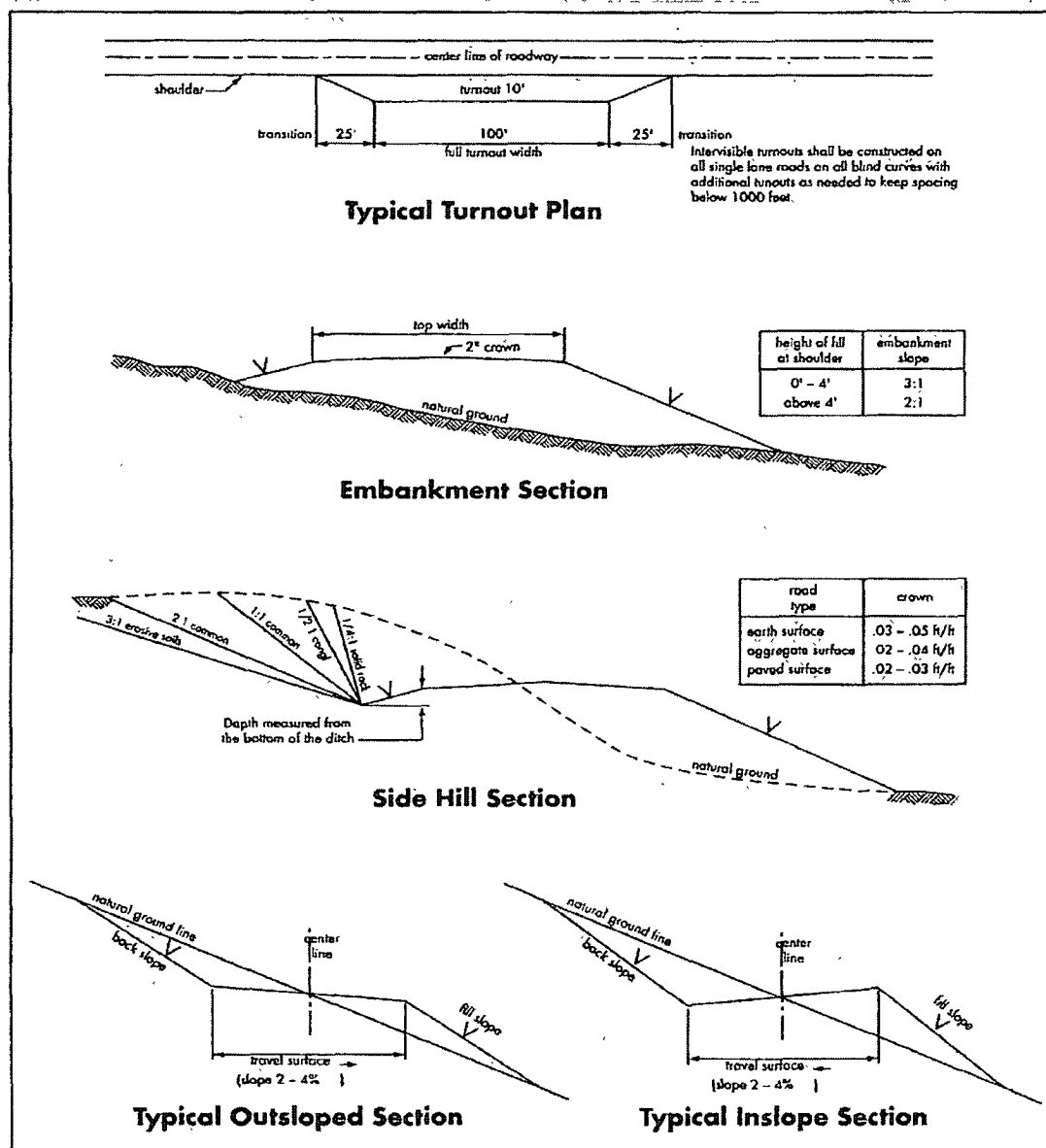
Where entry is required across a fence line, the fence shall be braced and tied off on both sides of the passageway prior to cutting.

The operator shall notify the private surface landowner or the grazing allotment holder prior to crossing any fence(s).

Public Access

Public access on this road shall not be restricted by the operator without specific written approval granted by the Authorized Officer.

Figure 1 – Cross Sections and Plans For Typical Road Sections



VII. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

The BLM is to be notified a minimum of 4 hours in advance for a representative to witness:

- a. Spudding well
- b. Setting and/or Cementing of all casing strings
- c. BOPE tests

☒ **Eddy County**

Call the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (575) 361-2822

1. A Hydrogen Sulfide (H₂S) Drilling Plan should be activated 500 feet prior to drilling into the Delaware formation. **As a result, the Hydrogen Sulfide area must meet Onshore Order 6 requirements, which includes equipment and personnel/public protection items. If Hydrogen Sulfide is encountered, please provide measured values and formations to the BLM.**
2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval. **If the drilling rig is removed without approval – an Incident of Non-Compliance will be written and will be a “Major” violation.**
3. Floor controls are required for 3M or Greater systems. These controls will be on the rig floor, unobstructed, readily accessible to the driller and will be operational at all times during drilling and/or completion activities. Rig floor is defined as the area immediately around the rotary table; the area immediately above the substructure on which the draw works are located, this does not include the dog house or stairway area.
4. **The record of the drilling rate along with the GR/N well log run from TD to surface (horizontal well – vertical portion of hole) shall be submitted to the BLM office as well as all other logs run on the borehole 30 days from completion. If available, a digital copy of the logs is to be submitted in addition to the paper copies. The Rustler top and top and bottom of Salt are to be recorded on the Completion Report.**

B. CASING

Changes to the approved APD casing and cement program require submitting a sundry and receiving approval prior to work. Failure to obtain approval prior to work will result in an Incident of Non-Compliance being issued.

Centralizers required on surface casing per Onshore Order 2.III.B.1.f.

Wait on cement (WOC) time prior to drilling out for a primary cement job will be a

minimum 18 hours for a water basin, 24 hours in the potash area, or 500 pounds compressive strength, whichever is greater for all casing strings. **DURING THIS WOC TIME, NO DRILL PIPE, ETC. SHALL BE RUN IN THE HOLE.** Provide compressive strengths including hours to reach required 500 pounds compressive strength prior to cementing each casing string. See individual casing strings for details regarding lead cement slurry requirements.

No pea gravel permitted for remedial or fall back remedial without prior authorization from the BLM engineer.

**Possible lost circulation in the Red Beds, Delaware and Bone Spring.
Possible water flows in the Salado, Castile, Delaware and Bone Spring.**

1. The 13-3/8 inch surface casing shall be set at **approximately 1350 feet (a minimum of 25 feet into the Rustler Anhydrite and above the salt)** and cemented to the surface.
 - a. If cement does not circulate to the surface, the appropriate BLM office shall be notified and a temperature survey utilizing an electronic type temperature survey with surface log readout will be used or a cement bond log shall be run to verify the top of the cement. Temperature survey will be run a minimum of six hours after pumping cement and ideally between 8-10 hours after completing the cement job.
 - b. **Wait on cement (WOC) time for a primary cement job is to include the lead cement slurry.**
 - c. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compressive strength, whichever is greater.
 - d. If cement falls back, remedial cementing will be done prior to drilling out that string.
2. The minimum required fill of cement behind the 9-5/8 inch intermediate casing is:
☒ Cement to surface. If cement does not circulate see B.1.a, c-d above.
3. The minimum required fill of cement behind the 7 inch production casing is:
☒ Cement should tie-back at least 3000 feet into previous casing string. Operator shall provide method of verification. **Excess cement calculates to be 11%.**
4. Cement not required on the 4-1/2 inch production liner. **Packer system will be utilized.**
5. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

C. PRESSURE CONTROL

1. All blowout preventer (BOP) and related equipment (BOPE) shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2 and API RP 53 Sec. 17.
2. Minimum working pressure of the blowout preventer (BOP) and related equipment (BOPE) required for drilling below the surface casing shoe shall be **2000 (2M)** psi.
 - a. **For surface casing only:** If the BOP/BOPE is to be tested against casing, the wait on cement (WOC) time for that casing is to be met (see WOC statement at start of casing section). Independent service company required.
3. Minimum working pressure of the blowout preventer (BOP) and related equipment (BOPE) required for drilling below the **9-5/8** inch intermediate casing shoe shall be **3000 (3M)** psi.
4. The appropriate BLM office shall be notified a minimum of 4 hours in advance for a representative to witness the tests.
 - a. In a water basin, for all casing strings utilizing slips, these are to be set as soon as the crew and rig are ready and any fallback cement remediation has been done. The casing cut-off and BOP installation can be initiated four hours after installing the slips, which will be approximately six hours after bumping the plug. For those casing strings not using slips or where the float does not hold, the minimum wait time before cut-off is eight hours after bumping the plug or when the cement reaches 500 psi compressive strength (including lead when specified), whichever is greater. BOP/BOPE testing can begin after the above conditions are satisfied.
 - b. The tests shall be done by an independent service company utilizing a test plug **not a cup or J-packer**. The operator also has the option of utilizing an independent tester to test without a plug (i.e. against the casing) pursuant to Onshore Order 2 with the pressure not to exceed 70% of the burst rating for the casing. Any test against the casing must meet the WOC time for water basin (18 hours) or potash (24 hours) or 500 pounds compressive strength, whichever is greater, prior to initiating the test (see casing segment as lead cement may be critical item).
 - c. The results of the test shall be reported to the appropriate BLM office.
 - d. All tests are required to be recorded on a calibrated test chart. **A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.**
 - e. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.

D. DRILL STEM TEST

If drill stem tests are performed, Onshore Order 2.III.D shall be followed.

E. WASTE MATERIAL AND FLUIDS

All waste (i.e. drilling fluids, trash, salts, chemicals, sewage, gray water, etc.) created as a result of drilling operations and completion operations shall be safely contained and disposed of properly at a waste disposal facility. No waste material or fluid shall be disposed of on the well location or surrounding area.

Porto-johns and trash containers will be on-location during fracturing operations or any other crew-intensive operations.

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VIII. PRODUCTION (POST DRILLING)

A. WELL STRUCTURES & FACILITIES

Placement of Production Facilities

Production facilities should be placed on the well pad to allow for maximum interim recontouring and revegetation of the well location.

Containment Structures

The containment structure shall be constructed to hold the capacity of the entire contents of the largest tank, plus 24 hour production, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

Painting Requirement

All above-ground structures including meter housing that are not subject to safety requirements shall be painted a flat non-reflective paint color Shale Green, Munsell Soil Color Chart # 5Y 4/2

IX. INTERIM RECLAMATION

During the life of the development, all disturbed areas not needed for active support of production operations should undergo interim reclamation in order to minimize the environmental impacts of development on other resources and uses.

Within six (6) months of well completion, operators should work with BLM surface management specialists (Jim Amos: 575-234-5909) to devise the best strategies to reduce the size of the location. Interim reclamation should allow for remedial well operations, as well as safe and efficient removal of oil and gas.

During reclamation, the removal of caliche is important to increasing the success of revegetating the site. Removed caliche that is free of contaminants may be used for road repairs, fire walls or for building other roads and locations. In order to operate the well or complete workover operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing revegetated areas for production or workover operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be revegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

All disturbed areas after they have been satisfactorily prepared need to be reseeded with the seed mixture provided below.

Upon completion of interim reclamation, the operator shall submit a Sundry Notices and Reports on Wells, Subsequent Report of Reclamation (Form 3160-5).

X. FINAL ABANDONMENT & RECLAMATION

At final abandonment, well locations, production facilities, and access roads must undergo "final" reclamation so that the character and productivity of the land are restored.

Earthwork for final reclamation must be completed within six (6) months of well plugging. All pads, pits, facility locations and roads must be reclaimed to a satisfactory revegetated, safe, and stable condition, unless an agreement is made with the landowner or BLM to keep the road and/or pad intact.

After all disturbed areas have been satisfactorily prepared, these areas need to be revegetated with the seed mixture provided below. Seeding should be accomplished by drilling on the contour whenever practical or by other approved methods. Seeding may need to be repeated until revegetation is successful, as determined by the BLM.

Operators shall contact a BLM surface protection specialist prior to surface abandonment operations for site specific objectives (Jim Amos: 575-234-5909).

Seed Mixture 1, for Loamy Sites

The holder shall seed all disturbed areas with the seed mixture listed below. The seed mixture shall be planted in the amounts specified in pounds of pure live seed (PLS)* per acre. There shall be no primary or secondary noxious weeds in the seed mixture. Seed will be tested and the viability testing of seed will be done in accordance with State law(s) and within nine (9) months prior to purchase. Commercial seed will be either certified or registered seed. The seed container will be tagged in accordance with State law(s) and available for inspection by the authorized officer.

Seed will be planted using a drill equipped with a depth regulator to ensure proper depth regulator to ensure proper depth of planting where drilling is possible. The seed mixture will be evenly and uniformly planted over the disturbed area (small/heavier seeds have a tendency to

drop the bottom of the drill and are planted first). The holder shall take appropriate measures to ensure this does not occur. Where drilling is not possible, seed will be broadcast and the area shall be raked or chained to cover the seed. When broadcasting the seed, the pounds per acre are to be doubled. The seeding will be repeated until a satisfactory stand is established as determined by the authorized officer. Evaluation of growth will not be made before completion of at least one full growing season after seeding.

Species to be planted in pounds of pure live seed* per acre:

Species

	<u>lb/acre</u>
Plains lovegrass (<i>Eragrostis intermedia</i>)	0.5
Sand dropseed (<i>Sporobolus cryptandrus</i>)	1.0
Sideoats grama (<i>Bouteloua curtipendula</i>)	5.0

*Pounds of pure live seed:

Pounds of seed x percent purity x percent germination = pounds pure live seed