



New Mexico Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

John H. Bemis
Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey
Division Director
Oil Conservation Division



February 22, 2012

Red Mountain Resources
Attn: Katie Valencia
415 W. Wall Street
Suite 1310
Midland, TX 79701

Email: katie@redmountainresources.com

Rebuttal of Presumption of Inactivity

Expiring as to four wells
on April 17, 2012

Re: RMR Operating LLC (OGRID #281085)
Wells:

- MARALO 16 STATE #002 API # 30-025-26644
- MARALO 16 STATE #006Y API # 30-025-26806
- MARALO 16 STATE #009 API # 30-025-26753
- MARALO 16 STATE #010 API # 30-025-26805

Dear Operator:

Subsection (F)(2) of Oil Conservation Division (OCD) Rule 19.15.5.9 NMAC provides that the listing of a well on the OCD's inactive well list as a well inactive for more than one year plus 90 days creates a "rebuttable presumption" that the well is out of compliance with OCD Rule 19.15.25.8 NMAC (the inactive well rule)

An operator may rebut that presumption by providing evidence that the well is in compliance with OCD Rule 19.15.25.8 NMAC.

The wells identified above currently appear on the OCD's inactive well list as wells operated by RMR Operating LLC (RMR) that have been inactive for more than one year plus 90 days.

On February 2, 2012, RMR became the operator of record of the wells identified above.



RMR has provided the OCD with documentation indicating that the wells were returned to production prior to it becoming the operator of record.

RMR has satisfactorily rebutted the presumption created by OCD Rule 19.15.5.9.F.2 that the wells identified above are in violation of OCD Rule 19.15.25.8 NMAC because the wells have been "active" as defined by OCD rules within the past year plus 90 days.

Although the above-named wells appear on RMR's inactive well list, the OCD should not consider the wells as out of compliance with OCD Rule 19.15.5.9.A.4.d NMAC or include them in calculating RMR's compliance with OCD Rule 19.15.5.9 NMAC.

The presumption that the wells are not inactive will remain until the date when RMR is required to file C-115 production reports for the wells. Division Rule 19.15.7.24 requires operators to file C-115 reports on or before the 15th day of the second month following the month of injection, or if such day falls on a weekend or holiday, the first workday following the 15th.

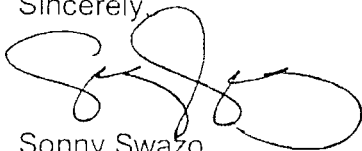
As operator of record of the wells since February 2, 2012, RMR is responsible for filing the February C-115 production reports for the wells on or before April 16, 2012. If RMR fails to file C-115 reports for any of the wells on or before April 16, 2012, the presumption that the particular well that RMR did not file C-115 reports for is inactive will return.

On April 17, 2012, if any of the 4 wells appear on the inactive well list the presumption that the well for which a C-115 was not filed is inactive will return.

As stated above, the OCD should not consider the wells identified above as out of compliance with OCD Rule 19.15.5.9.A.4.d NMAC or include them in calculating RMR's compliance with OCD Rule 19.15.5.9 NMAC. However, until RMR files C-115 reports for the wells, the wells will remain on the inactive well list.

RMR should attach a copy of this letter to any applications for a drilling permit, requests for allowable and authorization to transport, change of operator, or injection permits that RMR might file with the OCD so that the OCD knows that it should not count the wells identified above towards RMR's compliance with OCD Rule 19.15.5.9 NMAC.

Sincerely,



Sonny Swazo
OCD Assistant General Counsel

ec: Daniel Sanchez, OCD Compliance and Enforcement Manager
E.L. Gonzales, District I
Randy Dade, District II
Charlie Perrin, District III
Ed Martin, District IV
Theresa Duran-Saenz, OCD, Santa Fe