

**NOTICE OF VIOLATION**

February 28, 2017

Reports #V117-0349 to #V117-0395

Mr. William Armstrong, Agent
Armstrong Petroleum Corp.
P.O. Box 1547
Newport Beach, CA 92659

Dear Mr. Armstrong:

LEASE INSPECTION OF ARMSTRONG PETROLEUM CORP. LEASES IN THE WEST NEWPORT FIELD

On September 8, 2016, Division of Oil, Gas, and Geothermal Resources (Division) Engineering Geologist Raul Lima, and Energy and Mineral Resources Engineer Stacy Sor conducted a lease inspection at Armstrong Petroleum Corp.'s "Banning", "Hank 2 Lease", and "Pacific Electric" leases in the West Newport oil field. This letter itemizes violations of California's Public Resources Code (PRC) and California Code of Regulations (CCR) based upon observations made during the lease inspection.

Well Signs: CCR section 1722.1.1(a) states "Each well location shall have posted in a conspicuous place a clearly visible, legible, permanently affixed sign with the name of the operator, name or number of the lease, and number of the well. These signs shall be maintained on the premises from the time drilling operations cease until the well is plugged and abandoned."

Well Number	API Number	Violation Description	Violation Number
"Banning" 37R-2	059-21009	Incorrect operator	V117-0349
"Banning" 135	059-00215	Incorrect operator	V117-0350
"Banning" 145	059-20085	Incorrect operator	V117-0351
"Banning" 149	059-20090	Incorrect operator	V117-0352
"Banning" 235	059-20627	Incorrect operator	V117-0353
"Banning" 253	059-20683	Incorrect operator	V117-0354
"Banning" 274	059-20776	Incorrect operator	V117-0355
"Banning" 275	059-20767	Incorrect operator	V117-0356
"Banning" 306	059-05922	Incorrect operator	V117-0357
"Banning" 310	059-05908	Incorrect operator	V117-0358
"Banning" 350	059-21619	Incorrect operator	V117-0359
"Banning" 351	059-21620	Incorrect operator	V117-0360
"Banning" 352	059-21656	Incorrect operator	V117-0361
"Banning" 353	059-21655	Incorrect operator	V117-0362
"Banning" 444	059-21255	Incorrect operator	V117-0363
"Banning" 445	059-21116	Incorrect operator	V117-0364
"Banning" 451	059-21111	Incorrect operator	V117-0365
"Banning" 456	059-21260	Incorrect operator	V117-0366
"Banning" 459	059-21262	Incorrect operator	V117-0367
"Banning" 581	059-21710	Incorrect operator	V117-0368

Well Number	API Number	Violation Description	Violation Number
"Banning" 582	059-21707	Incorrect operator	V117-0369
"Banning" 583	059-21708	Incorrect operator	V117-0370
"Banning" 700	059-21675	Incorrect operator	V117-0371
"Banning" 701	059-21616	Incorrect operator	V117-0372
"Banning" 702	059-21676	Incorrect operator	V117-0373

The well signs at the wells listed above do not identify the correct operator. Armstrong Petroleum Corp. must install signs identifying the correct operator by March 31, 2017. The Division shall be notified when the violations have been corrected.

Well Cellar Covers: CCR section 1777(c)(3) states "Well cellars shall be covered and kept drained. Grating or flooring shall be installed and maintained in good condition so as to exclude people and animals. Cellars should be protected from as much runoff water as practical."

Well Number	API Number	Violation Description	Violation Number
"Banning" 350	059-21619	Cellar cover inadequate	V117-0374
"Banning" 351	059-21520	Cellar cover inadequate	V117-0375
"Banning" 145	059-20085	Cellar cover inadequate	V117-0376
"Banning" 274	059-20776	Cellar cover inadequate	V117-0377
"Banning" 353	059-21655	Cellar cover inadequate	V117-0378
"Banning" 456	059-21260	Cellar cover inadequate	V117-0379
"Banning" 702	059-21676	Cellar cover inadequate	V117-0380

The well cellars for the wells listed above are not properly covered. Armstrong Petroleum Corp. must repair the well cellar covers for the listed wells so that they are in good condition and exclude people and animals by March 31, 2017. The Division shall be notified when the violations have been corrected.

Well Cellar Fluids: CCR section 1777(c)(3) states in part "Well cellars shall be covered and kept drained. Cellars should be protected from as much runoff water as practical."

Well Number	API Number	Violation Description	Violation Number
"Banning" 459	059-21260	Fluids in well cellar	V117-0381
"Banning" 582	059-21707	Fluids in well cellar	V117-0382

The well cellars for the listed wells contain fluids. Armstrong Petroleum Corp. must drain the well cellars by March 31, 2017. The Division shall be notified when the violations have been corrected.

Well Leak: PRC section 3220 states "The owner or operator of any well on lands producing or reasonably presumed to contain oil or gas shall properly case it with water-tight and adequate casing, in accordance with methods approved by the supervisor or the district deputy, and shall, under his direction, shut off all water overlying and underlying oil-bearing or gas-bearing strata and prevent any water from penetrating such strata. The owner or operator shall also use every effort and endeavor to prevent damage to life, health, property, and natural resources; to shut out detrimental substances from strata containing water suitable for irrigation or domestic purposes and from surface water suitable for such purposes; and to prevent the infiltration of detrimental substances into such strata and into such surface water."

CCR section 1777(a) states "Operators shall maintain production facilities in good condition and in a manner to prevent leakage or corrosion and to safeguard life, health, property, and natural

resources.” CCR section 1722.4 states in part “Surface casing shall be cemented with sufficient cement to fill the annular space from the shoe to the surface. Intermediate and production casings, if not cemented to the surface, shall be cemented with sufficient cement to fill the annular space to at least 500 feet above oil and gas zones, and anomalous pressure intervals... All casing shall be cemented in a manner that ensures proper distribution and bonding of cement in the annular spaces. The appropriate Division district deputy may require a cement bond log, temperature survey, or other survey to determine cement fill behind casing. If it is determined that the casing is not cemented adequately by the primary cementing operation, the operator shall recement in such a manner as to comply with the above requirements...” CCR Section 1760(k) states in part ““Production facility” means any equipment attendant to oil and gas production or injection operations including, but not limited to, tanks, flowlines, headers, gathering lines, wellheads...”

Well Number	API Number	Violation Description	Violation Number
“Banning” 582	059-21707	Fluids bubbling in well cellar	V117-0383

Fluids were observed bubbling in the cellar of the well, and the well casing was observed to be moving from side to side, indicating inadequate cement bond, potential failure of zonal isolation, and possible compromise of mechanical integrity. Armstrong Petroleum Corp. must conduct appropriate mechanical integrity testing of this well by March 31, 2017, to identify the depth of damaged casing/failed cement bond, and either repair the failed casing/cement bond, or abandon the well. The Division shall be notified when corrective action is being taken, including onsite well evaluation, so that it may witness the operations. If permanent alteration to the well casing is necessary, including plugging and abandonment, an appropriate Notice of Intention (NOI) and bond shall be filed with the Division, and the operator must be in possession of a Division issued permit to conduct such well operations before work can begin.

Unremediated Spill: CCR section 1777(a) states “Operators shall maintain production facilities in good condition and in a manner to prevent leakage or corrosion and to safeguard life, health, property, and natural resources.”

CCR section 1775(a) states “Oilfield wastes, including but not limited to oil, water, chemicals, mud, and cement, shall be disposed of in such a manner as not to cause damage to life, health, property, freshwater aquifers or surface waters, or natural resources, or be a menace to public safety. Disposal sites for oilfield wastes shall also conform to State Water Resources Control Board and appropriate California Regional Water Quality Control Board regulations.”

Well Number	API Number	Violation Description	Violation Number
“Banning” 456	059-21260	Oil/chemical-stained soil near well	V117-0384
“Banning” 445	059-21116	Oil/chemical-stained soil near well	V117-0385
“Banning” 37R-2	059-21009	Oil/chemical-stained soil near well	V117-0386
“Banning” 235	059-20627	Oil/chemical-stained soil near well	V117-0387
“Banning” 135	059-00215	Oil/chemical-stained soil near well	V117-0388
“Banning” 350	059-21619	Oil/chemical-stained soil near well	V117-0389
“Banning” 700	059-21675	Oil/chemical-stained soil near well	V117-0390
“Banning” 701	059-21616	Oil/chemical-stained soil near well	V117-0391
“Banning” 583	059-21708	Oil/chemical-stained soil near well	V117-0392

Soil adjacent to the pumping units and well heads of the wells listed are stained by unremediated spills. Armstrong Petroleum Corp. must clean up the unremediated spills by March 31, 2017. The Division shall be notified when the violations have been corrected.

Pipeline Management Plan: CCR section 1774.2 states in part, "Operators shall prepare a pipeline management plan for all pipelines within two years of the effective date of this regulation. The plan shall be provided to the Supervisor upon request. The plan shall be updated within 90 days whenever pipelines are acquired, installed, altered, or at the request of the Supervisor..." A Division letter dated September 13, 2016 required Armstrong Petroleum Corp. to provide copies of Armstrong Petroleum Corp.'s pipeline management plans (PMP) for the "Banning", "Hank 2 Lease", and "Pacific Electric" leases by September 23, 2016 (see attachment).

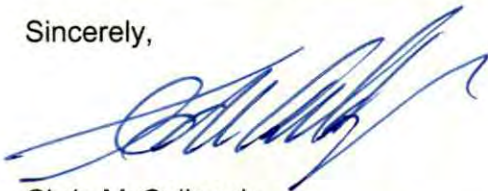
Lease	Violation Description	Violation Number
Banning	Failure to file pipeline management plan	V117-0393
Hank 2 Lease	Failure to file pipeline management plan	V117-0394
Pacific Electric	Failure to file pipeline management plan	V117-0395

PMPs for the "Banning", "Hank 2 Lease", and "Pacific Electric" leases must be furnished to the Division by March 31, 2017.

Failure to comply with the laws of California and this Division may result in enforcement action including, but not limited to, issuance of a civil penalty and/or order pursuant to Public Resources Code Sections 3106, 3224, 3235 and 3236.5.

If you have any questions, please contact Kathleen Andrews at (714) 816-6847 or kathleen.andrews@conservation.ca.gov.

Sincerely,



Chris McCullough
Environmental and Facilities Unit Supervisor

Attachment: Division's letter requiring pipeline management plans dated September 13, 2016

cc: Daniel J. Dudak, District Deputy
Cassidy Teufel, California Coastal Commission
Costa Mesa Fire Department
Well Files
Lease Inspection File



Department of Conservation

Division of Oil, Gas, and Geothermal Resources - District 1

5816 Corporate Avenue • Suite 100

Cypress, CA 90630

(714) 816-6847 • FAX (714) 816-6853

September 13, 2016

Mr. William Armstrong, Agent
Armstrong Petroleum Corp.
P.O. Box 1547
Newport Beach, CA 92659-0547

Dear Mr. Armstrong:

PIPELINE MANAGEMENT PLAN FOR ARMSTRONG PETROLEUM CORP.'S LEASES IN THE WEST NEWPORT FIELD

Per California Code of Regulations section 1774.2, all oil operators shall prepare a pipeline management plan, and the plan shall be provided to the Division of Oil, Gas, and Geothermal Resources (Division) upon request. The purpose of this letter is to state that the Division requires Armstrong Petroleum to provide copies of Armstrong Petroleum Corp.'s pipeline management plans for the "Banning", Hank 2 Lease", and "Pacific Electric" leases in the West Newport field to this office by September 23, 2016. The preferred method of submittal is in electronic format to Dogdist1@conservation.ca.gov.

The applicable portions of the California Code of Regulations are available on the Division's web site. If you have additional questions, please contact Kathleen Andrews at (714) 816-6847 or kathleen.andrews@conservation.ca.gov. We appreciate your cooperation and prompt attention to this matter.

Sincerely,

Chris McCullough
Environmental and Facilities Unit Supervisor

cc: Environmental Spill Contingency Plan File
Environmental Pipeline Management Plan File