N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Ave.
Artesia, NM 88210

Form 3160-3
(July 1992)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

SUBMIT IN TRIPLICATE* (Other instructions on reverse side)

FORM APPROVED
OMB NO. 1004-0136
Expires: February 28, 1995

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK: DRILL ☒ DEEPEN ☐

b. TYPE OF WELL: OIL WELL ☒ GAS WELL ☐ OTHER — SINGLE ZONE ☒ MULTIPLE ZONE ☐

2. NAME OF OPERATOR: SDX Resources, Inc. 020451

3. ADDRESS AND TELEPHONE NO.: PO Box 5061, Midland, TX 79704 432/685-1761

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*)
At surface: 2060' FSL 2260' FWL
At proposed prod. zone: Same

RECEIVED
JUL 11 2005
OCD-ARTESIA

Artesia; Glorieta-Yeso 96830

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*: 10 miles East of Artesia, NM

Keewell Controlled Water Basin

5. LEASE DESIGNATION AND SERIAL NO.	NMNM-048344		
6. IF INDIAN, ALLOTTEE OR TRIBE NAME			
7. UNIT AGREEMENT NAME			
8. FARM OR LEASE NAME, WELL NO.	Williams A Federal #7 26370		
9. API WELL NO.	30-015-34207		
10. FIELD AND POOL, OR WILDCAT			
11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA	Sec 29, T17S, R28E, K		
12. COUNTY OR PARISH	Eddy	13. STATE	NM
15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT (Also to nearest drlg. unit line, if any)	380' (380')	16. NO. OF ACRES IN LEASE: 200	17. NO. OF ACRES ASSIGNED TO THIS WELL: 40
18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.	663'	19. PROPOSED DEPTH: 3500	20. ROTARY OR CABLE TOOLS: Rotary
21. ELEVATIONS (Show whether DF, RT, GR, etc.)	3692' GR	22. APPROX. DATE WORK WILL START*	07/01/05

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
12-1/4"	8-5/8" J-55	24#	450'	325 sx Cl C
7-7/8"	4-1/2-5-1/2" J-55	9.5# - 17#	3500'	300 sx C + 400 sx Lite C

WITNESS

Plan to drill a 12-1/4" hole to 450'. Set 24# 8-5/8" csg & cmt to surf. Drill 7-7/8" hole to 3500' Run LDT-CNL-GR & DLL-GR OH logs. Run 4-1/2 - 5-1/2" J-55 9.5# - 17# csg & cmt to surf.

Will perf & stimulate the San Andres as necessary for optimum production.

Surface Use & Operations Plan
Drilling Program
H2S Plan

EXHIBITS:
1: BOP Diagram
2: Survey Plat
3: Access Maps
4: One Mile Radius Map
5: Rig orientation Diagram
6: Letter of Responsibility

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

IN ABOVE SPACE DESCRIBE PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24.
SIGNED Bonnie Atwater TITLE Regulatory Tech DATE 05/25/05

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

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:

APPROVED BY /s/ Joe G. Lara ACTING TITLE FIELD MANAGER DATE JUL 08 2005

*See Instructions On Reverse Side

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001, makes 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.

SURFACE USE AND OPERATIONS PLAN
SDX RESOURCES, INC.
Williams A Federal # 7
2060' FSL, 2260' FWL
Unit K, Sec. 29, T17S, R28E
Eddy Co., NM

1. Existing Roads:

A. The well site and elevation plat for the proposed well is shown in Exhibit #2. It was staked by Dan Reddy, Carlsbad, New Mexico.

B. All roads to the location are shown in Exhibit #3A. The existing rods are labeled and upgrading of the road prior to drilling will be done where necessary as determined during the onsite inspection.

C. Directions to location: E. of Artesia on Hwy. 82 ~ 12 miles .Just E. of intersection of 82 and 206 turn N. thru CG. Go .3 M and turn left. Go to T (tower on left) and turn right. Follow road to location.

D. Routine grading and maintenance of existing roads will be conducted as necessary to maintain their condition as long as any operations continue on this lease.

2. Proposed Access Road:

Exhibit #3A shows the existing road.

<100' of new road will be needed. Existing road is shown on Exhibit #3 A& B.

3. Location of Existing Wells:

Exhibit #4 shows all existing wells within a one-mile radius of this well.

4. Location of Existing and/or Proposed Facilities and ROW's:

A. If the well is productive:
1. The well will be tested and if commercial production exist a 2 or 3" SDR-11 poly flowline will be laid to an existing flowline on the #2 well. It will either tie in to an existing flowline or follow it to a battery located at the Williams Fed. # 1. ROW is shown in exhibits 3A & B.

2. A Power line will be built to location and will be permitted by Central Valley Electric Company.

B. If the well is productive, rehabilitation plans are as follows:

1. The reserve pit will be back-filled after the contents of the pit are dry (within 120 days after the well is complete).

2. Topsoil removed from the drill site will be used to raconteur the pit area to the original natural level, as nearly as possible, and reseeded as per BLM specifications.

DRILLING PROGRAM
SDX Resources Inc.
Williams A Federal # 7
2060' FSL, 2260' FWL
Unit K, Sec. 29, T17S, R28E
Eddy Co., NM

1. Geologic Name of Surface Formation:

   Permian

2. Estimated Tops of Important Geologic Markers:

Yates	600
7- Rivers	900'
Queen	1200'
Grayburg	1600'
San Andres	1950'

3. Estimated Depth of Anticipated Fresh Water, Oil or Gas:

Water Sand	150' – 200'	Fresh Water
Yates	650	Oil & Gas
7-Rivers	950	Oil & Gas
Queen	1400'	Oil & Gas
Grayburg	1880'	Oil & Gas
San Andres	2800'	Oil & Gas

Fresh water sands will be protected by running 8-5/8" casing to a minimum depth of 450' and circulating cement. All other zones will be isolated by running 4-1/2" or 5-1/2" production casing and circulating cement.

4. Casing Program:

Hole Size	Interval	OC Csg	Weight Grade Jt Cond Type
12-1/4"	0 – 450	8-5/8"	24#, J55, New
7-7/8"	0 – TD	4-1/2" – 5-1/2"	9.5# - 17#, J55, Used

Cement Program:

8-5/8" Surface Casing:	Cemented to surface with 325 sx of Class C with 2% CaCl and ¼#/sx Flocele.
5-1/2" Production Casing:	Cemented with 300 sx of Class C and 400 sx of Lite C with 6# salt/sx and ¼#/sx Flocele. This should circulate cement to the surface.

5. Minimum Specifications for Pressure Control:

   The blowout preventer equipment (BOP) shown in Exhibit #1 will consist of an annular bag type preventer (1000 psi WP). Unit will be hydraulically operated. BOP will be nippled up on the 8-5/8" surface csg and used continuously until TD is reached. BOP and accessory equipment will be tested to 1000 psi before drilling out of surface casing. A 2" kill line and a 2" choke line will be included in the drilling spool. Other accessories to the BOP equipment will include a kelly cock.

6. Types and Characteristics of the Proposed Mud System:

The well will be drilled to TD with a combination of fresh water and brine water mud system. The applicable depth and properties of this system are as follows:

Depth	Type	Weight (ppg)	Viscosity (sec)	Waterloss (cc)
0 – 450	Fresh Water (spud)	8.5	40 – 45	N/C
450 – TD	Brine water, SWG, Starch	10.0	30	24

Sufficient mud materials to maintain mud properties and meet minimum lost circulation and weight increase requirements will be kept at the wellsite at all times.

7. Auxiliary Well Control and Monitoring Equipment:

A. A kelly cock will be kept in the drill string at all times.

B. A mud logging unit complete with H2S detector will be continuously monitoring drilling penetration rate and hydrocarbon shows from 1000' to TD.

8. Logging, Testing and Coring Program:

A. Drillstem tests will be run on the basis of drilling shows.

B. The electric logging program will consist of GR-Dual Laterolog and GR-Compensated Neutron-Density from TD to surface casing.

C. Conventional coring may be performed in select intervals if deemed necessary.

D. Further testing procedures will be determined after the production casing has been cemented at TD based on drill shows and log evaluation.

9. Abnormal Conditions, Pressures, Temperatures, & Potential Hazards:

No abnormal pressure or temperatures are anticipated. The estimated bottom hole temperature (BHT) at TD is 94° and estimated maximum bottom-hole pressure (BHP) is 800 psig. No abnormal concentrations of hydrogen sulfide or other hazardous gases or fluids have been encountered, reported or are known to exist at this depth in this area. All H2S operation precautions will be followed (see attached H2S drilling operations plans). No major loss circulation zones have been reported in offsetting wells.

10. Anticipated Starting Date and Duration of Operations:

Road and location work will not begin until approval has been received from the BLM. The anticipated spud date is July 1, 2005. Once commenced, the drilling operation should be finished in approximately 10 days. If the well is productive, an additional 30 days will be required for completion and testing before a decision is made to install permanent facilities.

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN
SDX Resources Inc.
Williams A Federal # 7
2060' FSL, 2260' FWL
Sec. 29, T17S, R28E, Unit K
Eddy Co., NM

I. Hydrogen Sulfide Training

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will receive training from a qualified instructor in the following areas prior to commencing drilling operations on this well:

1. The hazards and characteristics of hydrogen sulfide (H2S).

2. The proper use and maintenance of personal protective equipment and life support system.

3. The proper use of H2S detectors, alarms, warning systems, briefing areas, evacuation procedures, and prevailing winds.

4. The proper techniques for first aid and rescue procedures.

In addition, supervisory personnel will be trained in the following areas:

1. The effects of H2S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.

2. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.

3. The contents and requirements of the H2S Drilling Operations Plan and the Public Protection Plan.

There will be an initial safety session just prior to commencing operations on the well. The initial session shall include a review of the site's specific H2S Drilling Operations Plan and the Public Protection Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

II. H2S SAFETY EQUIPEMNT AND SYSTEMS

Note: All H2S safety equipment and systems will be installed, tested, and operational when drilling reaches a depth of 500'.

1. Well Control Equipment:

   A. Annular Preventer to accommodate all pipe sizes with properly sized closing unit.

2. Protective Equipment for Essential Personnel:

   A. Mark II Surviveair 30-minute units located in the dog house.

3. H2S Detection and Monitoring Equipment:

   A. 1 – portable H2S monitor positioned on location for best coverage and response.

   B. Mud logging trailer shall have H2S monitoring equipment.

4. Visual Warning Systems:

   A. Guy lines will be flagged and a wind sock will be positioned on location.

   B. Caution/Danger signs shall be posted on roads providing direct access to location.

5. Mud Program:

   The mud program has been designed to minimize the volume of H2S circulated to the surface. Proper mud weight, safe drilling practices, will minimize hazards when penetrating H2S bearing zones.

6. Metallurgy:

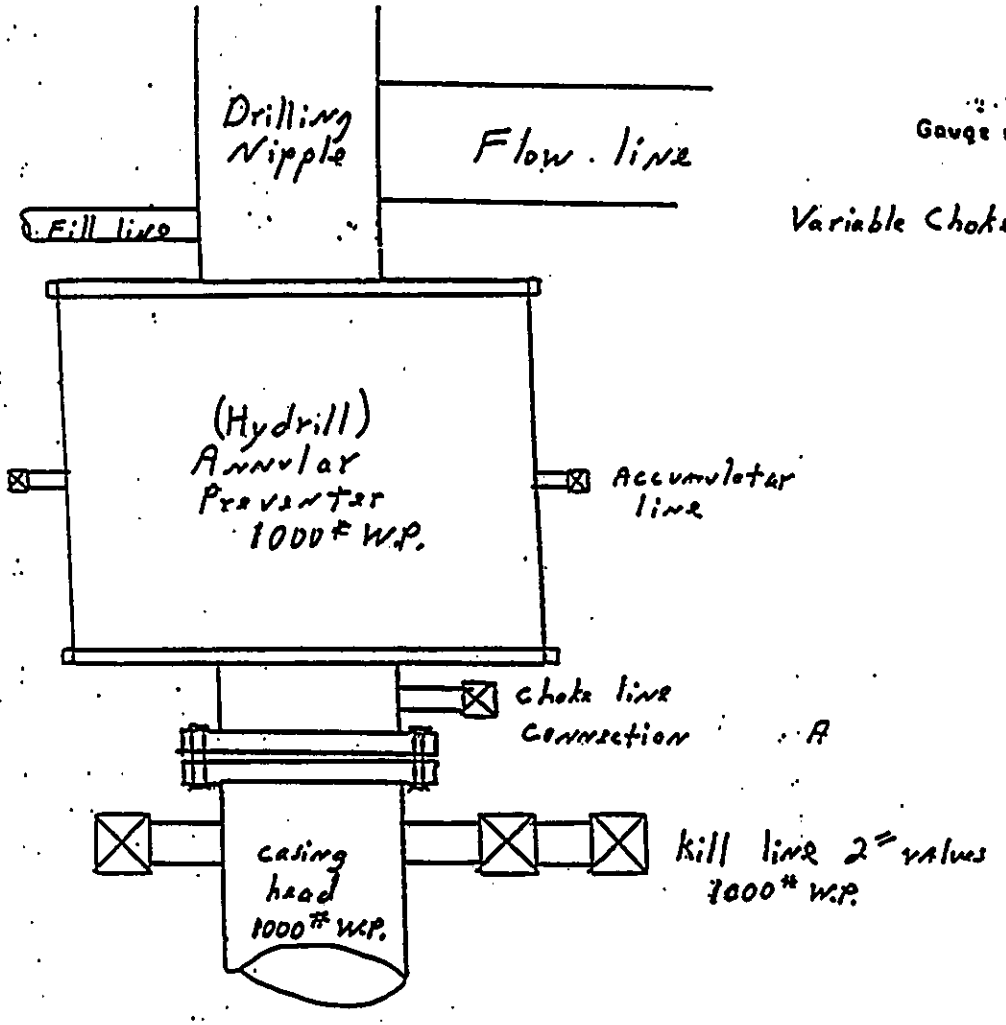
   All drill strings, casings, tubing, wellhead, blowout preventers, drilling spool, kill lines, choke manifold and lines, and valves shall be suitable for H2S service as necessary.

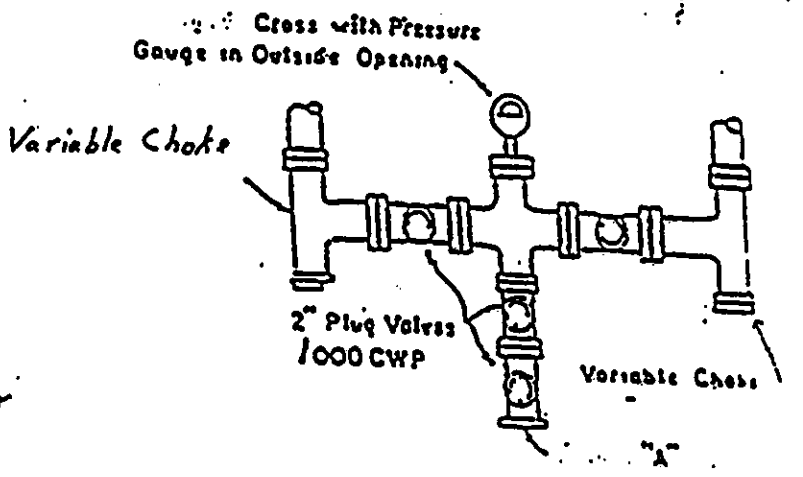
7. Communication:

   Radio communications in company vehicles including cellular telephone and 2-way radio.

8. Well Testing:

   No DST's are planned.





PLAN VIEW - CHOKE MANIFOLD

Exhibit #1

District I
1625 N. French Dr. Hobbs, NM 88240

District II
1301 W. Grand Avenue, Artesia, NM 88210

District III
1000 Rio Brazos Rd., Aztec NM 87410

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

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised June 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
	96830	Artesia; Glorieta-Yeso

Property Code	Property Name	Well Number
26370	WILLIAMS A FEDERAL	7
OGRID No.	**Operation Name**	**Elevation**
020451	SDX RESOURCES, INC.	3692

Surface Location

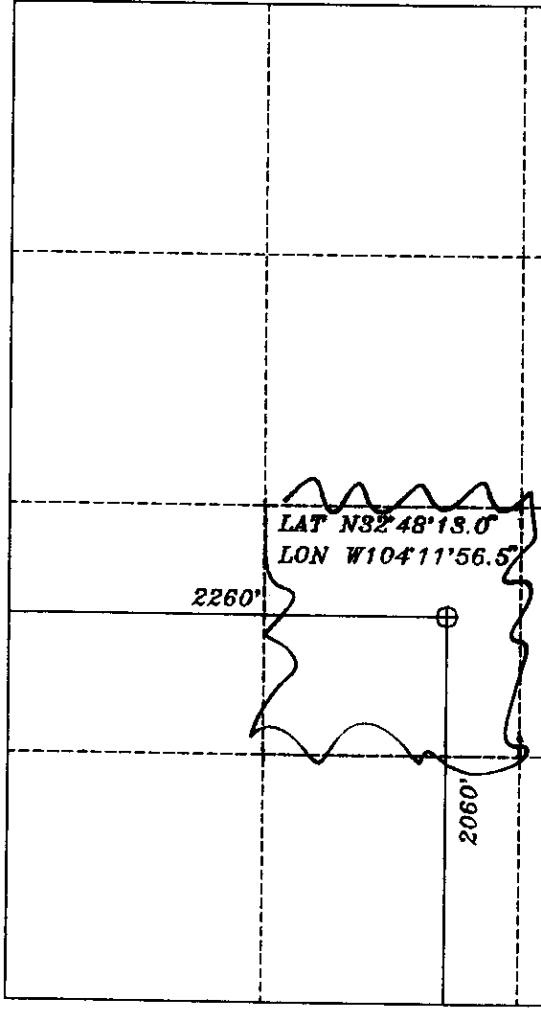
UL or Lot No.	Section	Township	Range	Lot Idn.	Feet from the	North/South line	Feet from the	East/West line	County
K	29	17-S	28-E		2060	SOUTH	2260	WEST	EDDY

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

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
40			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTEREST HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION

I HEREBY CERTIFY THAT THE INFORMATION CONTAINED HEREIN IS TRUE AND COMPLETE TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Bonnie Atwater
Signature

Bonnie Atwater
Printed Name

Regulatory Tech
Title and E-mail Address

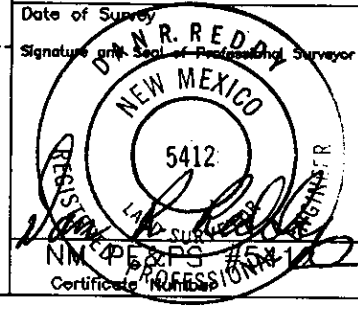
5/25/05
Date

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 KNOWLEDGE AND BELIEF.

MAY 17, 2005
Date of Survey

Signature and Seal of Professional Surveyor



NM PE&PS #5412
Certificate Number

EXHIBIT #2

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

SDX Resources Inc.
PO Box 5061
Midland, TX 79704
432/685-1761

May 25, 2005

The undersigned accepts all applicable terms, conditions, stipulations and restrictions concerning operations conducted on the leased land or portion thereof, as described below:

Lease No.:	NMNM-048344
Lease Name:	Williams A Federal #7
Legal Description of Land:	Unit K, 2060' FSL 2260' FWL Sec. 29, T17S, R28E Eddy Co., NM
Formation (s):	Red Lake, GL-YE
Bond Coverage:	Statewide Bond – State of New Mexico
BLM Bond File No.:	NM2307

Authorized Signature:

John Pool
Vice-President

Ltrresp