District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-101
May 27, 2004

RECEIVED
DEC 15 2005
OCD-ARTESIA

Submit to appropriate District Office

☐ AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

[1] Operator Name and Address	[2] OGRID Number
Nadel and Gussman Permian, LLC 601 N. Marienfeld Suite 508 Midland, TX 79701	155615
	[3] API Number 30 – 015- 34492

[5] Property Code	[5] Property Name	[6] Well No.
35324	Dinero State	#5

[9] Proposed Pool 1	[10] Proposed Pool 2
Dublin Ranch; Morrow 74140	

[7] Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	16	22 S	28 E		1,980	North	1,980	East	Eddy

[8] Proposed 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

Additional Well Information

[11] Work Type Code	[12] Well Type Code	[13] Cable/Rotary	[14] Lease Type Code	[15] Ground Level Elevation
N	G	R	S	3,081'
[16] Multiple	**[17] Proposed Depth**	**[18] Formation**	**[19] Contractor**	**[20] Spud Date**
No	12,800'	Morrow	Paterson - UTI	01/02/06

Depth to Groundwater: Greater that 100'	Distance from nearest fresh water well: Greater than 1,000'	Distance from nearest surface water: Greater than 1,000'

Pit: Liner: Synthetic ☒ 20 mils thick Clay ☐ Pit Volume: 15,000 bbls Drilling Method:

Closed-Loop System ☐ Fresh Water ☒ Brine ☒ Diesel/Oil-based ☐ Gas/Air ☐

[21] Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17 ½"	13 3/8"	48# H-40	300'	300sx	Circ. to Surf.
12 ¼"	9 5/8"	40# N-80	4,500'	900sx	Circ. to Surf.
8 ¾"	5 ½"	17#, 20# HCP-110	12,800'	1,550sx	TOC @ 4,000'

[22] Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Nadel and Gussman Permian, LLC proposes to drill the Dinero State #5. A mud gas separator will be installed and tested prior to drilling the Wolfcamp. A BOP will be installed on the 9 5/8" and tested. Cement to cover all water, oil and gas producing zones. NGP will notify NMOCD of spud date and cementing times so the surface and intermediate casing strings could be witnessed. No H_2S is expected, but a contingency is attached.

[23] I hereby certify that the information given above is true and complete to the best of my knowledge and belief. **I further certify that the drilling pit will be constructed according to NMOCD guidelines ☒, a general permit ☐, or an (attached) alternative OCD-approved plan ☐.**

Signature: J. Fernau

Printed name: Josh Fernau

Title: Staff Engineer

E-mail Address: joshf@naguss.com

Date: 12/14/05 Phone: 432-682-4429

OIL CONSERVATION DIVISION

Approved by: Jim W. Gum
District II Supervisor

Title:

Approval Date: DEC 16 2005 Expiration Date: DEC 16 2006

Conditions of Ap

If earthen pits are used in association with the drilling of this well, an OCD pit permit must be obtained prior to pit construction.

Salt 79.5

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

DISTRICT II
811 South First, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

2040 South Pacheco
Santa Fe, New Mexico 87504-2088

Form C-102
Revised March 17, 1999

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
	76140	Dublin Ranch; Morrow

Property Code	Property Name	Well Number
	DINERO STATE	5

OGRID No.	Operator Name	Elevation
	NADEL AND GUSSMAN PERMIAN	3081'

Surface Location

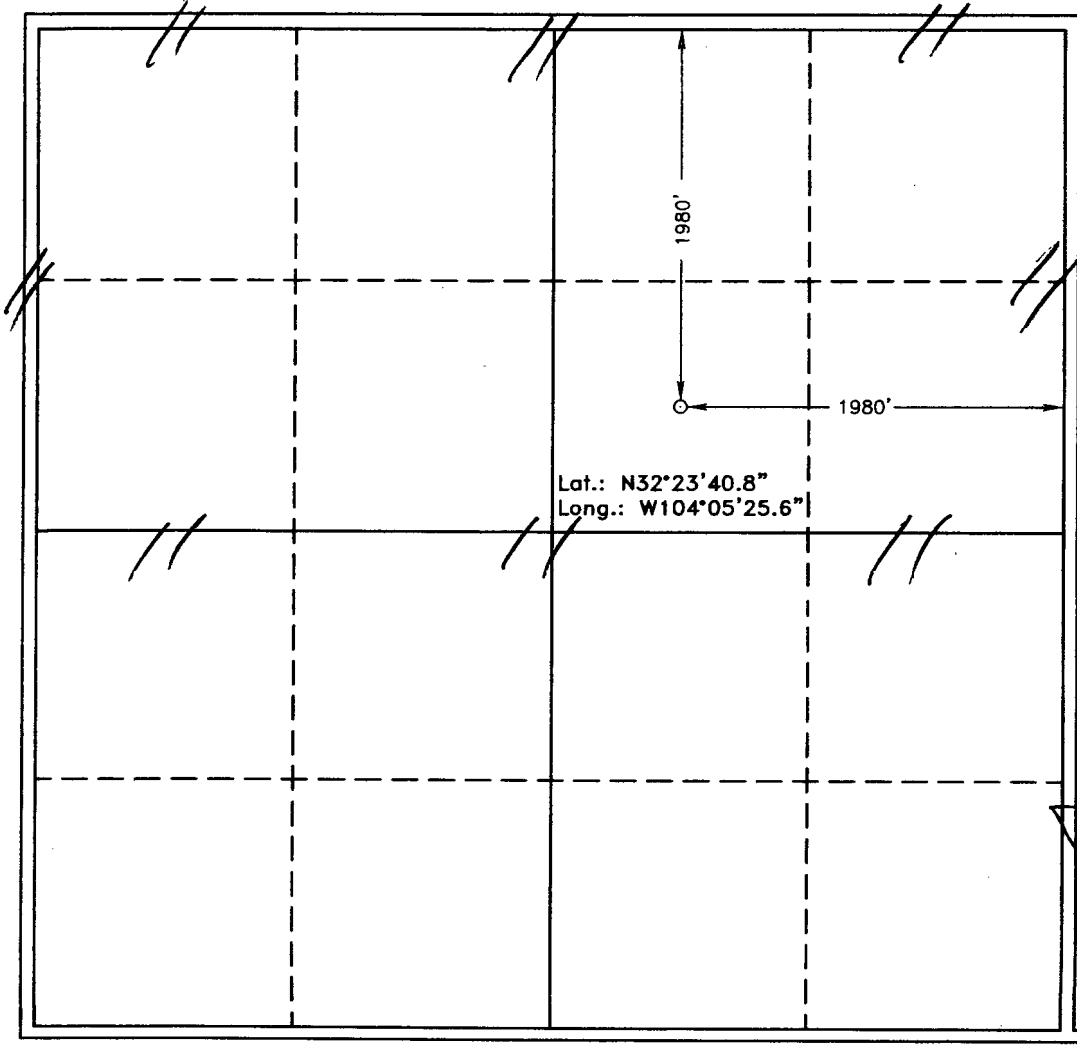
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	16	22 S	28 E		1980	NORTH	1980	EAST	EDDY

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.
320			

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



OPERATOR CERTIFICATION

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

Signature: Josh Fernau

Printed Name: Josh Fernau

Title: Staff Engineer

Date: 12/14/05

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 supervison, and that the same is true and correct to the best of my belief.

NOVEMBER 14, 2005

Date Surveyed

Signature & Seal of Professional Surveyor

GARY L. JONES 7977 REGISTERED PROFESSIONAL SURVEYOR

W.O. No. 5996

Certificate No. Gary L. Jones 7977

BASIN SURVEYS

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144
June 1, 2004

For drilling and production facilities, submit to appropriate NMOCD District Office.
For downstream facilities, submit to Santa Fe office

Pit or Below-Grade Tank Registration or Closure

Is pit or below-grade tank covered by a "general plan"? Yes ☐ No ☒
Type of action: Registration of a pit or below-grade tank ☒ Closure of a pit or below-grade tank ☐

Operator: _Nadel and Gussman Permian, LLC _____ Telephone: __432-682-4429_____ e-mail address: ____joshf@naguss.com_____
Address: __601 N. Marienfeld Suite 508 Midland TX 79701_____
Facility or well name: __Dinero State #5_____ API #: _____ U/L or Qtr/Qtr ___G_____ Sec __16T ___22 S____ R _28E___
County: _____Eddy_____ Latitude _N 32 deg 23' 40.8"___ Longitude ____W104 deg 05' 25.6"_____ NAD: 1927 ☐ 1983 ☒
Surface Owner: Federal ☐ State ☒ Private ☐ Indian ☐

Pit	**Below-grade tank**	
Type: Drilling ☒ Production ☐ Disposal ☐ Workover ☐ Emergency ☐ Lined ☒ Unlined ☐ Liner type: Synthetic ☒ Thickness _20____mil Clay ☐ Pit Volume ___15,000____bbl	Volume: _____bbl Type of fluid: _____ Construction material: _____ Double-walled, with leak detection? Yes ☐ If not, explain why not.	RECEIVED DEC 15 2005 OCD-ARTESIA
Depth to ground water (vertical distance from bottom of pit to seasonal high water elevation of ground water.)	Less than 50 feet 50 feet or more, but less than 100 feet 100 feet or more	(20 points) (10 points) (0 points) x
Wellhead protection area: (Less than 200 feet from a private domestic water source, or less than 1000 feet from all other water sources.)	Yes No	(20 points) (0 points) x
Distance to surface water: (horizontal distance to all wetlands, playas, irrigation canals, ditches, and perennial and ephemeral watercourses.)	Less than 200 feet 200 feet or more, but less than 1000 feet 1000 feet or more	(20 points) (10 points) (0 points) x
	Ranking Score (Total Points)	0

If this is a pit closure: (1) Attach a diagram of the facility showing the pit's relationship to other equipment and tanks. (2) Indicate disposal location: (check the onsite box if your are burying in place) onsite ☐ offsite ☐ If offsite, name of facility_____. (3) Attach a general description of remedial action taken including remediation start date and end date. (4) Groundwater encountered: No ☐ Yes ☐ If yes, show depth below ground surface_____ft. and attach sample results. (5) Attach soil sample results and a diagram of sample locations and excavations.

Additional Comments:

I hereby certify that the information above is true and complete to the best of my knowledge and belief. **I further certify that the above-described pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines ☒, a general permit ☐, or an (attached) alternative OCD-approved plan ☐.**

Date: __12/14/05_____
Printed Name/Title __Josh Fernau, Staff Engineer _____ Signature _____

Your certification and NMOCD approval of this application/closure does not relieve the operator of liability should the contents of the pit or tank contaminate ground water or otherwise endanger public health or the environment. Nor does it relieve the operator of its responsibility for compliance with any other federal, state, or local laws and/or regulations.

Approval:
Printed Name/Title Field Supervisor Signature _____ Date: DEC 21 2005

NADEL AND GUSSMAN PERMIAN, L.L.C.
601 N. Marienfeld, Suite 508
Midland, TX 79701
(432) 682-4429 (Office)
(432) 682-4325 (Fax)

12/14/05

Mr. Bryan Arrant
District 2 Geologist
New Mexico Oil and Gas Division
1301 West Grand Avenue
Artesia, NM 88210

Re: Dinero State #5
1,980' FNL & 1,980' FEL
Unit Letter G, Sec. 16-T22S-R28E
Eddy, NM
Rule 118 H2S Exposure

Dear Mr. Arrant,

Nadel and Gussman Permian have evaluated this well and we do not expect to encounter hydrogen sulfide. However, we will employ a third party monitoring system. We will begin monitoring prior to drilling out the intermediate casing and will continue monitoring the remainder of the well.

Please contact me if you have any additional questions.

Sincerely,

Josh Fernau
Staff Engineer

Hydrogen Sulfide Drilling Operations Plan

1. Company and Contract personnel admitted on location should be trained by a qualified H_2S safety instructor to the following:
    A. Characteristics of H_2S.
    B. Physical Effects and Hazards.
    C. Proper Use of Safety Equipment and Life Support Systems.
    D. Principle and Operation of H_2S Detectors, Warning System and Briefing.
    E. Evacuation Procedure, Routes and First Aid.
    F. Proper Use of 30 minute Pressure Demand Air Pack.

2. H_2S Detection and Alarm Systems
    A. H_2S 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.
        1. Green Flag, Normal Safe Condition.
        2. Yellow Flag, Indicates Potential Pressure and Danger.
        3. Red Flag, Danger H_2S Present in Dangerous Concentration Only Emergency Personnel Admitted to Location.

5. Well Control Equipment
    A. See Attached Diagram.

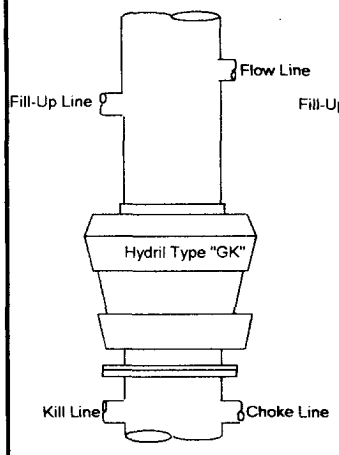
6. Communication
    A. While Working Under Masks Chalkboards Will be Used for Communication.
    B. Hand Signals will be Used Where Chalk Board is Inappropriate.
    C. Two Way Radio or Cell Phone will be Used to Communicate off Location in Case of Available at Most Drilling Foreman's Trailer or Living Quarters.

7. Drillstem Testing
    A. Exhausts will be Watered.
    B. Flare Line will be Equipped with an Electric Igniter or a propane pilot light in case gas reaches the surface.
    C. If Location is near any Dwelling a Closed DST will be Performed.

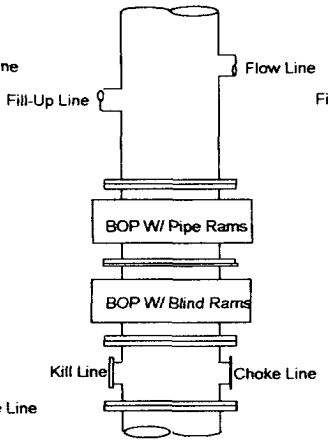
8. Drilling Contractor Supervisor will be Required to be Familiar with the Effects H_2S has on tubular goods and other mechanical equipment.

9. If H_2S Encountered, Mud system will be Altered if Necessary to Maintain Control of Formation. A Mud Gas Separator will be Brought into Service Along with H_2S Scavengers if Necessary.

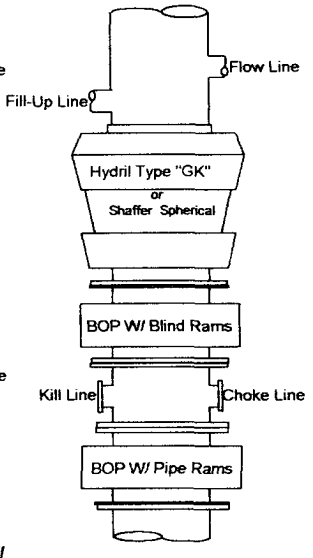
Nadel and Gussman Permian _____
MINIMUM BLOWOUT PREVENTER REQUIREMENTS



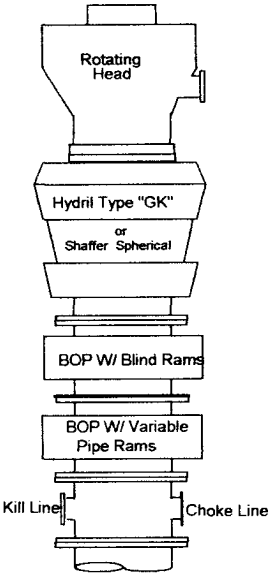
CASE I



CASE II



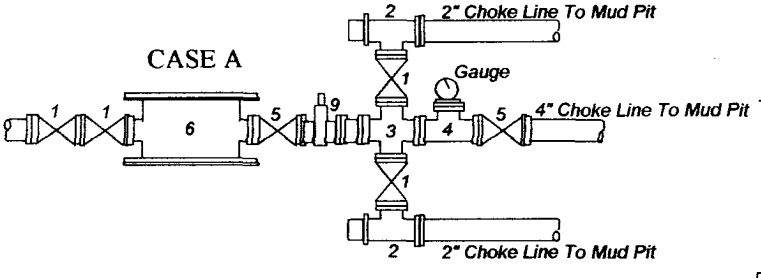
CASE III



CASE IV

A1" valve will be installed on the closing line to the Hydril. This valve will on a short nipple next to the Hydril. The Hydril closing line must be equipped with a 1" - 3000 psi WP plug valve on the nipple into the Hydril.

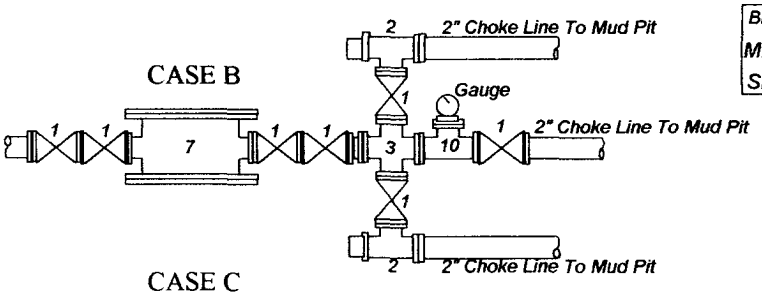
CASE A



BOP SIZE	BOP CASE	WORKING PRESSURE	CHOKE CASE
13⅝"	IV	5,000#	A

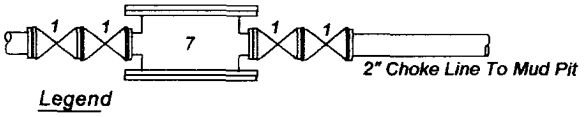
*Rotating head required

CASE B



Bradenhead :
Mfr: _____
Size: _____ Type: _____

CASE C



Legend

1. *2" flanged all steel valve must be either Cameron "F", Halliburton Low Torque or Shaffer Flo-Seal.*
2. *2" flanged adjustable chokes, min. 1" full opening & equiped with hard trim.*
3. *4" x 2" flanged steel cross.*
4. *4" flanged steel tee.*
5. *4" flanged all steel valve (Type as in no. 1).*
6. *Drilling Spool with 2" x 4" flanged outlet.*
7. *Drilling Spool with 2" x 2" flanged outlet.*
8. *2" x 2" flanged steel cross.*
9. *4" pressure operated gate valve.*
10. *2" flanged steel tee.*

Notes

Choke manifold may be located in any convenient position. Use all steel fittings throughout. Make 90° turns with bull plugged tees only. No field welding will be permitted on any of the components of the choke manifold and related equipment upstream of the chokes. The choke spool and all lines and fittings must be at least equivalent to the test pressure of the preventers required. Independent closing control unit with clearly marked controls to be located on derrick floor near driller's position.

(10-31-96) WTXBOPS.PPT

OBJECTIVES AND METHODS

1) Meet environmental standards.

   - The proposed mud system provides economical inhibition and excellent well bore stability.

2) Provide borehole stability.

   - The Baroid Engineer will control flow properties, gel strengths, and solids in the desired ranges. In addition, we must follow prudent operating procedures such as short trips and optimized penetration rates.

3) Prevent induced kicks and lost circulation. Minimize swab/surge pressures.

4) Optimize well bore cleaning in large diameter hole.

   - This is accomplished by coordinating flow rates, penetration rates, and mud properties. Short trips are essential.

5) Seal massive and/or depleted sands/limestone.

   - AQUAGEL®, HY-SEAL®, PLUG-GIT®, and BARO-SEAL™ will provide a good particle size distribution and a controlled fluid loss for plugging depleted or weak sands/limestone in the hole intervals.

6) Prevent differentially stuck pipe.

7) Safe and economical completion of the project.

   - Baroid personnel are dedicated to safety. The recommended fluid system is quite cost effective, when used to reduce total well cost, by reducing well bore related problems and the associated days.

Casing Program

Hole Size	Casing Size	Top MD/RKB	Set @ MD / RKB	Fluid Density	Drilling Fluid System
17 ½"	13 ⅜"	300'	300'	8.4 – 9.0 ppg.	FW/Native
12 ¼"	9 ⅝"	4,500'	4,500'	9.7-10.2 ppg.	Brine water
8 ¾"	5 ½"	12,800'	12,800'	8.4-11.0 ppg.	Brine/Polymer

***Casing program provided by Nadel & Gussman**

Formation Tops (Estimated Depths) MD

System	Formation	GL (ft)	KB (ft)	Sub Sea (ft)
Permian	Delaware	±2,600'	±00'	±00'
	Canyon	± 3,438'	±00'	±00'
	Bone Spring	± 6,050'	±00'	±00'
	Wolfcamp	± 9,550'	±00'	±00'
	Strawn	± 10,780'	±00'	±00'
	Lower Atoka	± 11,100'	±00'	±00'
Target	Morrow	± 12,270'	±00'	±00'
Total Depth (TVD/MD)		± 12,800'	±00'	±00'

RECOMMENDED MUD PROPERTIES

[illegible] (ft)	[illegible] (ppg)	Funnel Vis	PV	YP	Fluid Loss	HTHP @ 250	pH	% Solids	Cl
0-300'	8.4-9.0	26-36	1-3	1-3	N/C	N/A	9.5-10.0	<5	<10K
300'- 4,500'	9.7-10.2	28-32	1-3	2-5	N/C	N/A	9.5-10.0	<3	180K
4,500' -10,400'	8.4-9.0	28-32	1-3	2-5	N/C	N/A	9.5-10.0	<2	8K-20K
10,400'-12,800'	10.0-11.0	35-45	6-9	9-18	<10	N/A	9.5-10.0	<5	100K-150K

DRILLING FLUID DISCUSSION BY INTERVAL

Interval: 0 – 300' MD: Spud Mud

Mud Properties:

[illegible] (ft)	Mud Weight (ppg)	Funnel Vis	PV	YP	Fluid Loss	HTHP @ 250	pH	% Solids	Cl
0-300'	8.4-9.6	26-36	1-3	1-3	N/C	N/A	9.5-10.0	<5	<10K

Operation: Spud in and drill a 17 ½" hole and drill to 300'. Run and cement 13 3/8" surface casing.

Mud System: A fresh water system is recommended for drilling this interval. Build spud mud with **AQUAGEL®** for the desired funnel viscosity. Lime will be added to aid flocculation and to adjust ph for corrosion control.

Solids Control: Fully utilize at least two linear motion shakers, rig desilter, and rig desander to control drill solids. Run the finest mesh screens that will accommodate pump rates.

Issues: Lost returns/Seepage - Add **HY-SEAL®** for seepage. For excessive seepage or lost returns mix in 100 bbls of fresh water the following: 1 sack of soda ash to reduce hardness to <200 ppm, **AQUAGEL®** for a 35+ viscosity, 8-10 ppb **PLUG-GIT®**, 8-10 ppb **BARO-SEAL™**, and 6-8 ppb cottonseed hulls. In the event of complete loss of returns, dry drill (minimum 7 bpm) using gel/paper sweeps to keep the hole clean. ***Be prepared for severe lost circulation and the possibility of "dry drilling" to TD.***

Hole Cleaning: Use EZ-MUD® in sweeps as needed or poured directly down the drill pipe on connections.

Corrosion Control- Refer to Corrosion Control Program. Add DA-370 (corrosion inhibitor) and FA-200 (filming amine) for corrosion control. Run corrosion rings in the drill pipe. Rings should be in place for a minimum of 100 hours unless the drill pipe is observed to be corroding or as instructed by the Corrosion Engineer. Monitor effectiveness of corrosion treatments. Record results on morning reports. Monitor corrosion rates and assure a rate of less than 1.5 lbs/ft^2/yr. Ensure that the mud engineer's corrosion formulae are followed precisely and ensure that corrosion rings are submitted in a timely manner.

*At TD, sweep the hole with 50 bbls of pre-mixed fresh water/ AQUAGEL®/Lime/ HY-SEAL® with a funnel viscosity of 45-50 sec/qt.

Interval: 300'- 6,100' MD: Brine Water

Mud Properties:

Interval	MW	VIS	PV	YP	FL	pH	Chlorides	CL
300' – 4,500'	9.7-10.2	28-32	1-3	2-5	N/C	9.5-10.0	<3	180,000

Operation: Drill out of surface casing and obtain a successful shoe test. Drill a 12 ¼" hole to 6,100'. Run and cement 9 5/8" intermediate casing.

Mud System: Brine water is recommended to drill this interval. Maintain a 10 pH with Caustic soda.

Solids Control: Fully utilize at least two linear motion shakers, rig desilter, and rig desander to control drill solids. Run the finest mesh screens that will accommodate pump rates.

Issues: *Deviation is possible in this interval.*

Lost Returns/Seepage - Add BARO-SEAL™, PLUG-GIT®, or HY-SEAL® for seepage or lost returns. DIAMONDSEAL™ is a water-swellable but not water soluble, 100% crystalline synthetic polymer that absorbs hundreds of times its own weight in water. It has been used in the area in conjunction with "regular" LCM products with good success.

Hole Cleaning: Use EZ-MUD® in sweeps or poured directly down the drill pipe on connections.

Corrosion Control- Add DA-370 (corrosion inhibitor) and FA-200 (filming amine) for corrosion control. *Keep the corrosion rates below 1.5 lbs/ft^2/yr.* Run corrosion rings in the drill pipe. Rings should be in place for a minimum of 100 hours unless the drill pipe is observed to be corroding or as instructed by the Corrosion Engineer. Monitor effectiveness of corrosion treatments. Record results on morning reports. Monitor corrosion rates and assure a rate of less than 1.5 lbs/ft^2/yr. Ensure that the mud engineer's corrosion formulae are followed precisely and ensure that corrosion rings are submitted in a timely manner.

***At TD, sweep the hole with 50 bbls of pre-mixed fresh water/ AQUAGEL®/Lime/ HY-SEAL® with a funnel viscosity of 45-50 sec/qt.**

Interval: 6,100'- 10,400' MD; Cut Brine Water

Mud Properties:

Interval	MW	VIS	PV	YP	FL	pH	% Solids	CL
4,500' -10,400'	8.4-9.0	28-32	1-3	2-5	N/C	9.5-10.0	<2	8-20K

Operation: Drill out of intermediate casing and obtain a successful shoe test. Drill an 8 ¾" hole to 10,400'.

Mud System: Cut Brine water is recommended to drill this interval. Use caustic soda to maintain the pH above 10. Sweep hole as needed for adequate hole cleaning.

Solids Control: Fully utilize at least two linear motion shakers, rig desilter, and rig desander to control drill solids. Run the finest mesh screens that will accommodate pump rates. ***To control solids, add 2.5 gals/2 hrs. of SS-105 at the flowline.***

Issues: Lost Returns/Seepage - Add **BARO-SEAL™, PLUG-GIT®,** or **HY-SEAL®** for seepage or lost returns. ***Pump LCM (starting with 3-4 sx/hr of paper) as needed to control seepage and lost circulation. For excessive seepage mix 35-40 sx of starch to the system at 5 min/sk.***

Hole Cleaning: Use **EZ-MUD®** in sweeps or poured directly down the drill pipe on connections. **HY-SEAL®** can also be used in sweeps for additional hole cleaning. ***Sweep the hole every 200' or as needed for fill or drag with 1-2 gals. of SS-105 (add at the pump suction).***

Corrosion Control- Add **DA-370 (corrosion inhibitor), DA-320 (H_2S scavenger),** and **FA-200 (filming amine)** for corrosion control. Run corrosion rings in the drill pipe. Rings should be in place for a minimum of 100 hours unless the drill pipe is observed to be corroding or as instructed by the Corrosion Engineer. Monitor effectiveness of corrosion treatments. Record results on morning reports. Monitor corrosion rates and assure a rate of less than 1.5 lbs/ft^2/yr. Ensure that the mud engineer's corrosion formulae are followed precisely and ensure that corrosion rings are submitted in a timely manner.

****Ensure corrosion chemicals are mixed exactly as recommended by the mud engineer. Ensure that corrosion rings are run in saver sub and top of drill collars. Rings should be submitted for analysis on each trip. Visually check pipe on trips and check for unusual wear or corrosion***

Interval: 10,400'- 12,800' MD: Barazan D+/Dextrid

Mud Properties:

Interval	MW	YP	PV	YP	FL	pH	% Solids	Cl
10,400'-12,800'	10.0-11.0	34-45	6-9	9-18	<10	9.5-10.0	<5	100-150K

Operation: At ~10,400' begin mud up with **BARAZAN® D PLUS/DEXTRID® LT.** Mix **BAROID®** for desired mud weight as dictated by hole conditions.

Mud System: A brine/polymer system is recommended to drill this interval. Use **caustic soda** to maintain the pH above 10. Sweep hole as needed for adequate hole cleaning.

Solids Control: Fully utilize at least two linear motion shakers, rig desilter, and rig desander to control drill solids. Run the finest mesh screens that will accommodate pump rates.

Issues: Lost Returns/Seepage - Add **BARO-SEAL™, PLUG-GIT®,** or **HY-SEAL®** for seepage or lost returns. ***Pump LCM (starting with 3-4 sx/hr of paper) as needed to control seepage and lost circulation. For excessive seepage mix 35-40 sx of starch to the system at 5 min/sk.***

Hole Cleaning: **HY-SEAL®** may be used in sweeps for additional hole cleaning.

***At TD, mud from system may be pulled into slug pit and viscosity raised to 60-70 sec/qt for added hole cleaning.**

Corrosion Control- Add **DA-370 (corrosion inhibitor), DA-320 (H_2S scavenger),** and **FA-200 (filming amine)** for corrosion control. Run corrosion rings in the drill pipe. Rings should be in place for a minimum of 100 hours unless the drill pipe is observed to be corroding or as instructed by the Corrosion Engineer. Monitor effectiveness of corrosion treatments. Record results on morning reports. Monitor corrosion rates and assure a rate of less than 1.5 lbs/ft^2/yr. Ensure that the mud engineer's corrosion formulae are followed precisely and ensure that corrosion rings are submitted in a timely manner.

Ensure corrosion chemicals are mixed exactly as recommended by the mud engineer. Ensure that corrosion rings are run in saver sub and top of drill collars. Rings should be submitted for analysis on each trip. Visually check pipe on trips and check for unusual wear or corrosion

SECTION 16, TOWNSHIP 22 SOUTH, RANGE 28 EAST, N.M.P.M.,
EDDY COUNTY, **NEW MEXICO.**

150' NORTH
OFF SET
3081.4'

150' WEST
OFF SET
3077.0'

NADEL & GUSSMAN PERMIAN
DINERO STATE #5
ELEV. - 3081'

LAT. N32°23'40.8"
LONG. W104°05'25.6"

150' EAST
OFF SET
3081.9'

LEASE ROAD

150' SOUTH
OFF SET
3080.2'

100 0 100 200 FEET

SCALE: 1" = 100'

Directions to Location:

FROM THE JUNCTION OF CO. RD. 605 AND CO. RD. 607, GO NORTHEAST ON CO. RD. 607 FOR 1.3 MILE TO INTERSECTION; THENCE SOUTH FOR 0.8 MILE; THENCE WEST FOR 0.4 MILE TO PROPOSED LEASE ROAD.

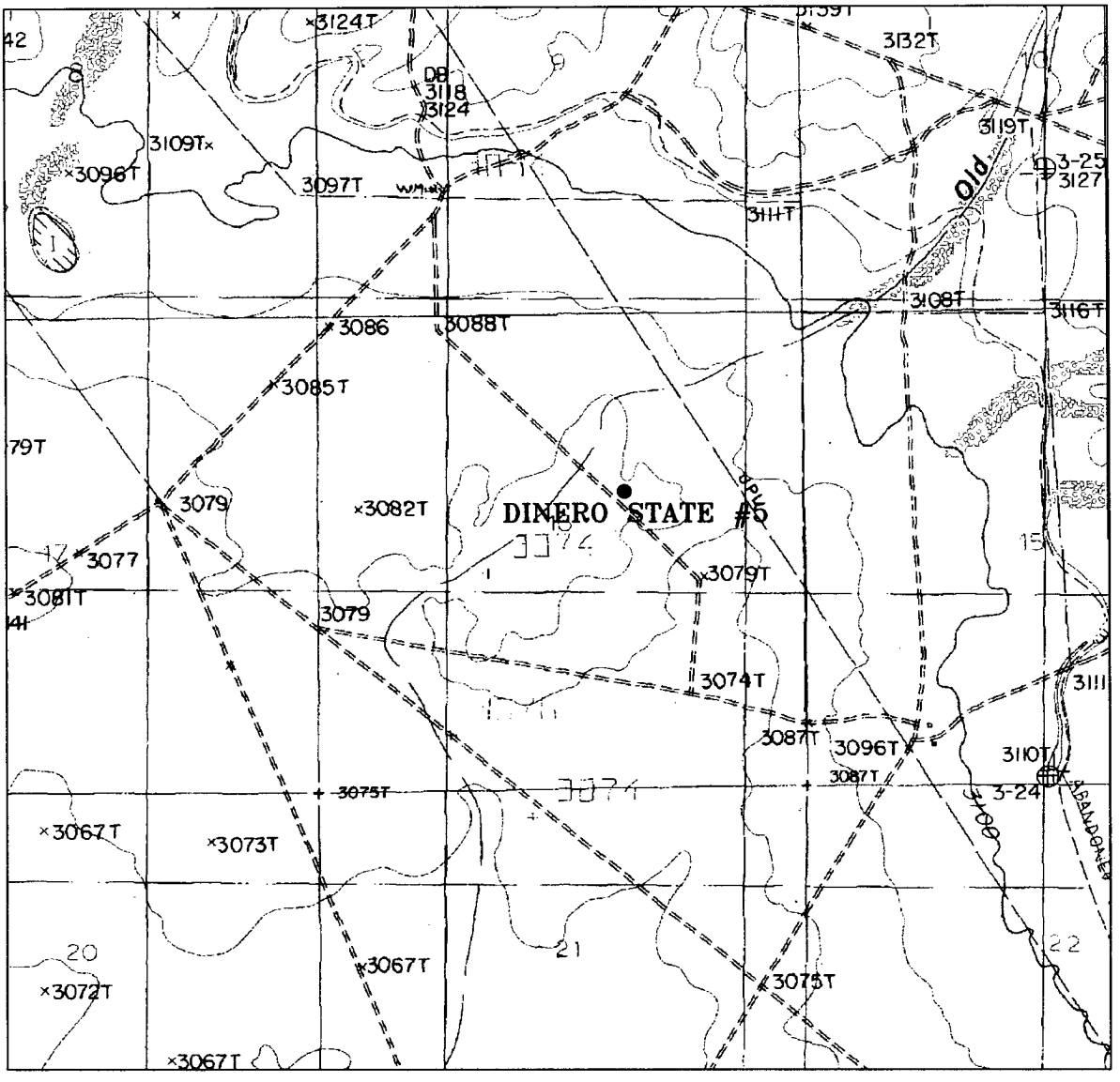
NADEL AND GUSSMAN PERMIAN

REF: DINERO STATE No. 5 / Well Pad Topo

DINERO STATE No. 5 LOCATED 1980' FROM THE NORTH LINE AND 1980' FROM THE EAST LINE OF SECTION 16, TOWNSHIP 22 SOUTH, RANGE 28 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO.

BASIN SURVEYS P.O. BOX 1786 – HOBBS, NEW MEXICO

W.O. Number: 5996	Drawn By: K. GOAD		
Date: 11-18-2005	Disk: KJG #9 – 5996A.DWG	Survey Date: 11-14-2005	Sheet 1 of 1 Sheets

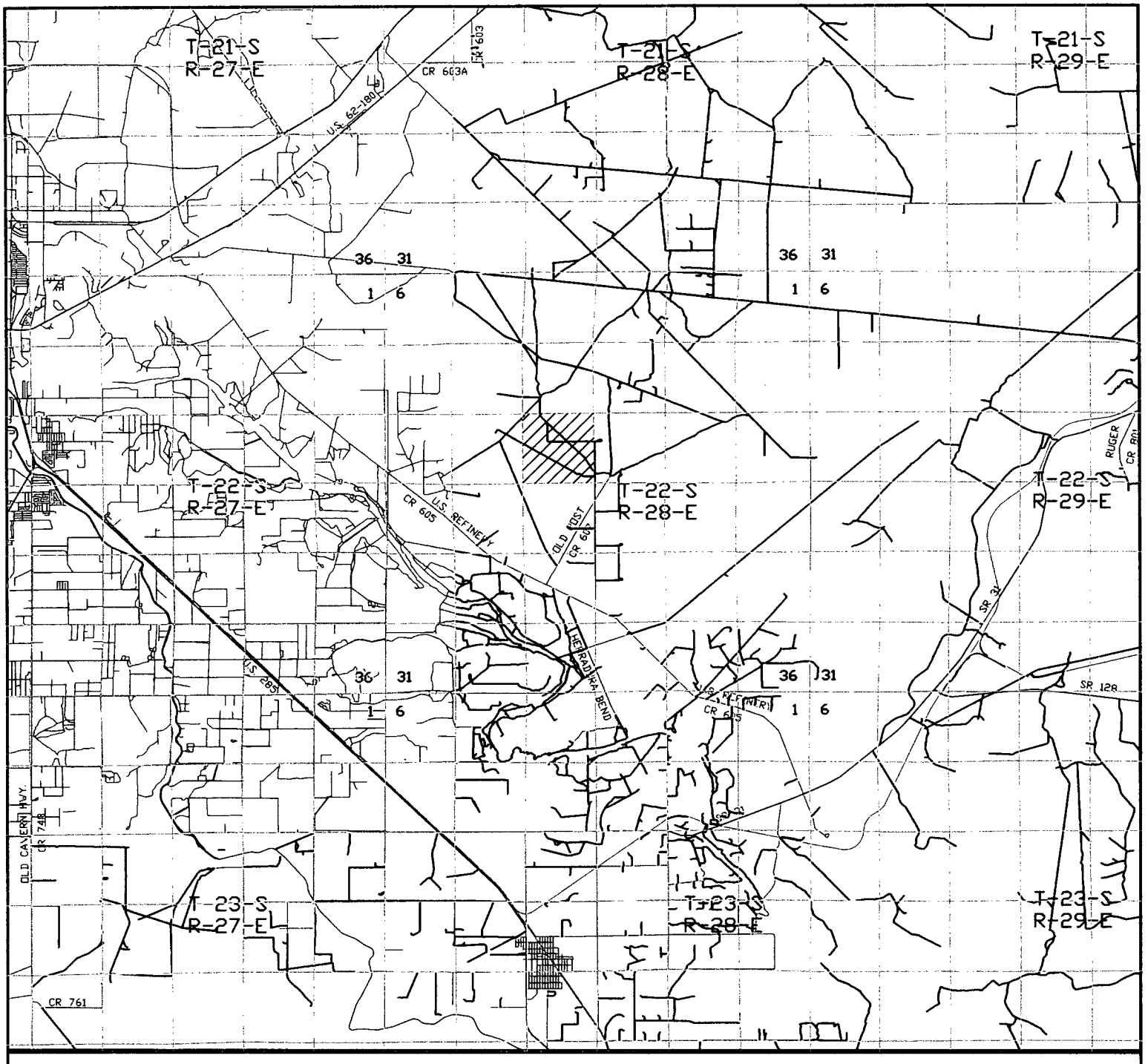


DINERO STATE #5
Located at 1980' FNL and 1980' FEL
Section 16, Township 22 South, Range 28 East,
N.M.P.M., Eddy County, New Mexico.

basin Surveys
focused on excellence in the oilfield
P.O. Box 1786
1120 N. West County Rd.
Hobbs, New Mexico 88241
(505) 393-7316 - Office
(505) 392-3074 - Fax
basinsurveys.com

W.O. Number: 5996AA - KJG #1
Survey Date: 11-14-2005
Scale: 1" = 2000'
Date: 11-18-2005

NADEL AND GUSSMAN PERMIAN, L.L.C.

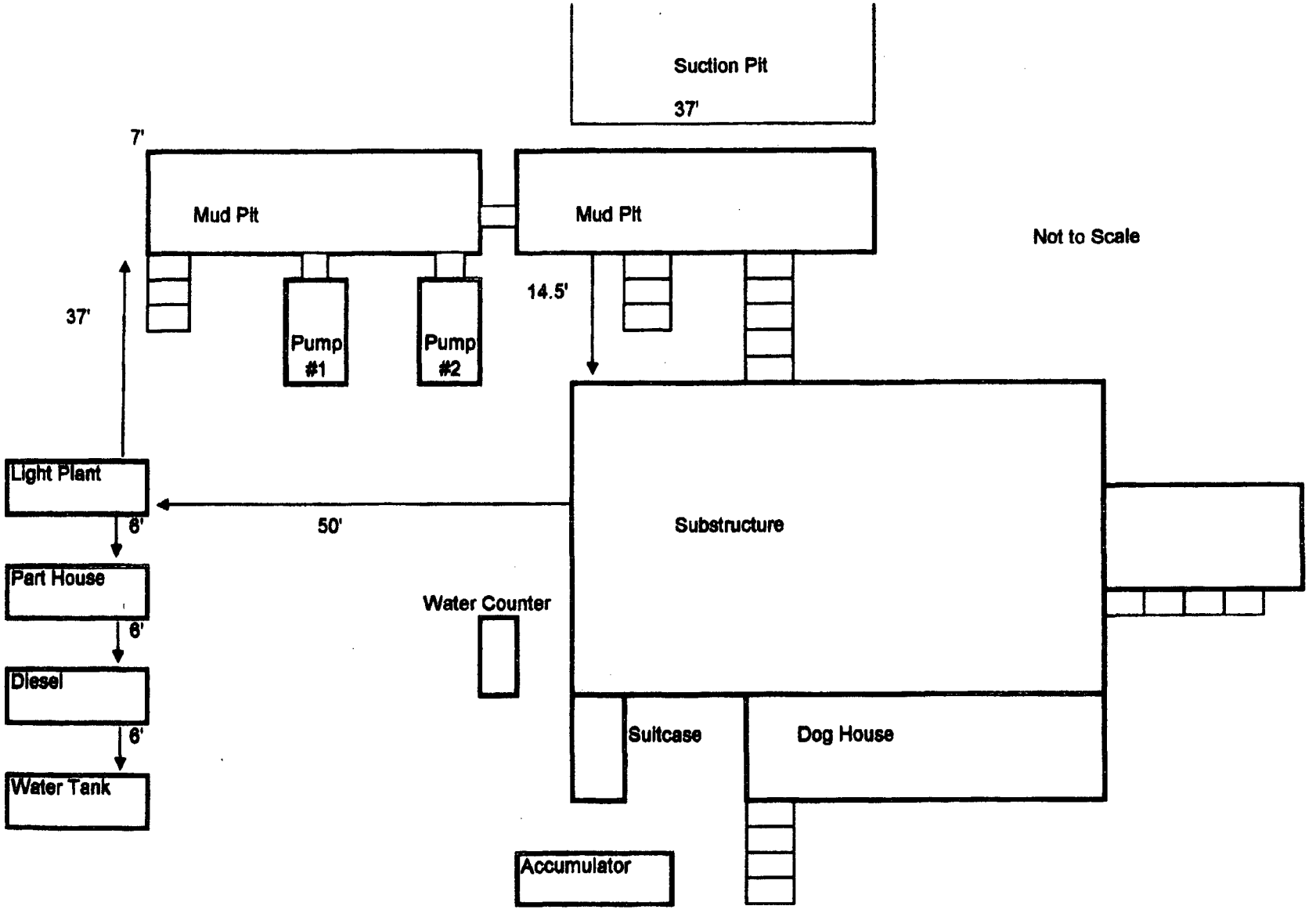


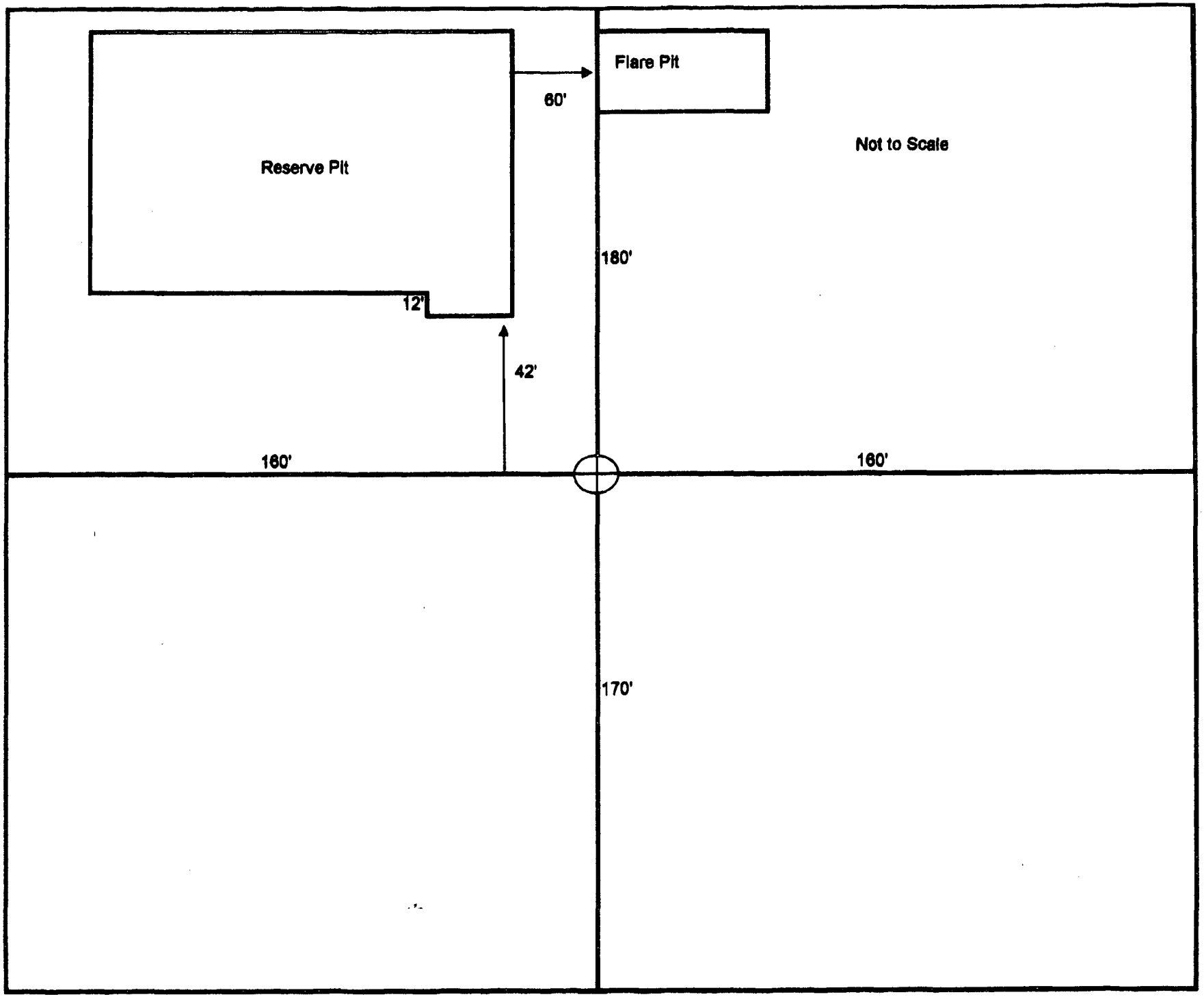
DINERO STATE #5
Located at 1980' FNL and 1980' FEL
Section 16, Township 22 South, Range 28 East,
N.M.P.M., Eddy County, New Mexico.

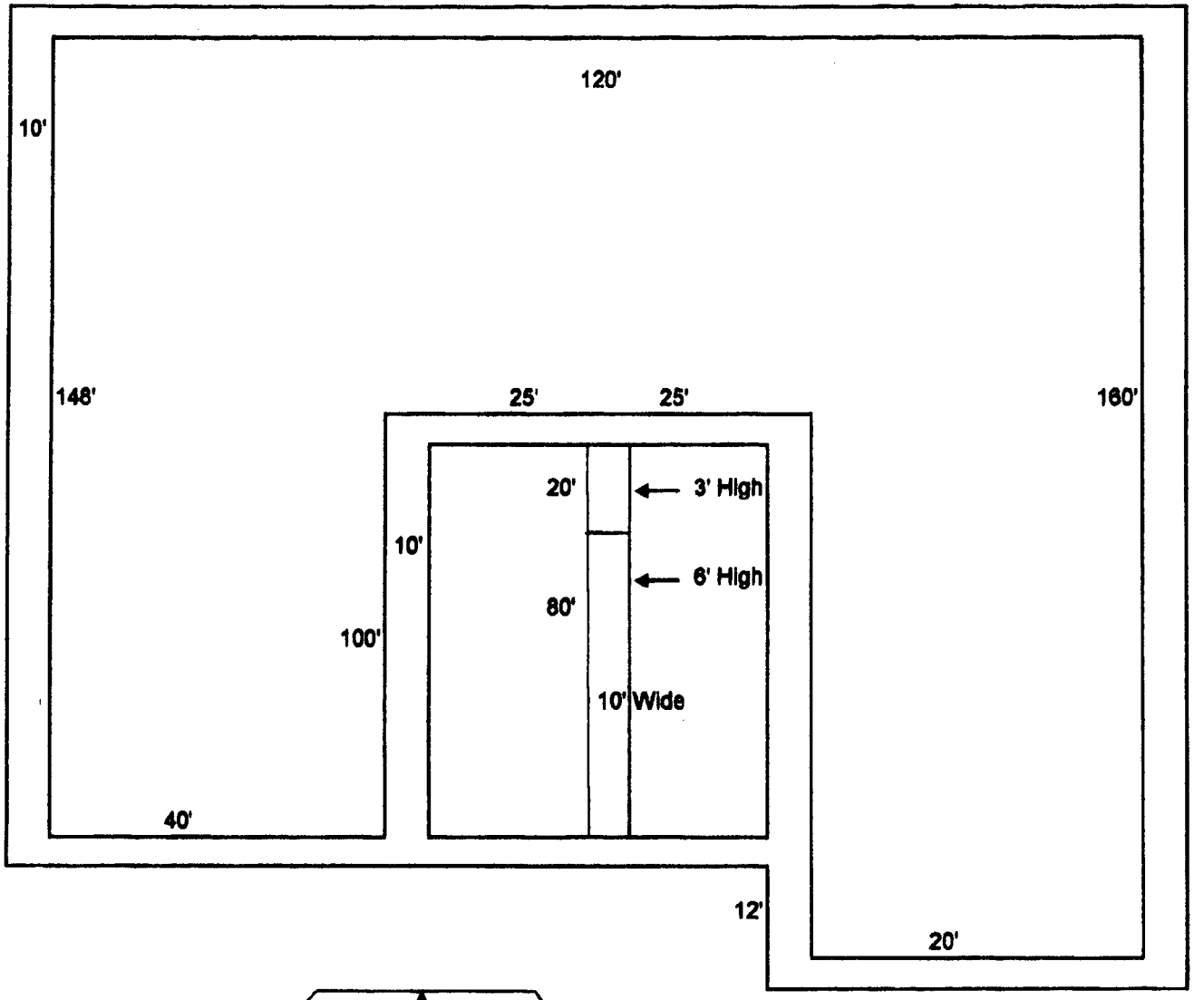
basin surveys
focused on excellence in the oilfield
P.O. Box 1786
1120 N. West County Rd.
Hobbs, New Mexico 88241
(505) 393-7316 - Office
(505) 392-3074 - Fax
basinsurveys.com

W.O. Number:	5996AA - KJG #1
Survey Date:	11-14-2005
Scale:	1" = 2 MILES
Date:	11-18-2005

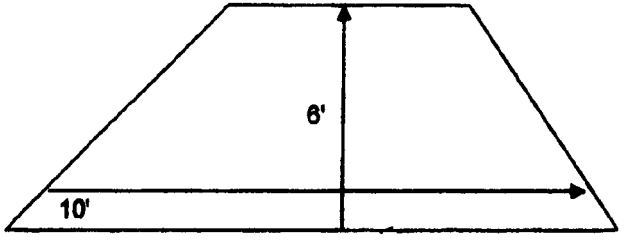
NADEL AND GUSSMAN PERMIAN, L.L.C.


Suction Pit
37'
7'
Mud Pit
Mud Pit
Not to Scale
37'
14.5'
Pump #1
Pump #2
Light Plant
6'
50'
Substructure
Part House
6'
Water Counter
Diesel
6'
Suitcase
Dog House
Water Tank
Accumulator


Flare Pit
60'
Reserve Pit
Not to Scale
180'
12'
42'
160'
160'
170'



Not to Scale



NADEL AND GUSSMAN PERMIAN, L.L.C.
601 N. Marienfeld, Suite 508
Midland, TX 79701
(432) 682-4429 (Office)
(432) 682-4325 (Fax)

12/14/05

Mr. Bryan Arrant
District 2 Geologist
New Mexico Oil and Gas Division
1301 West Grand Avenue
Artesia, NM 88210

Re: Dinero State #5
1,980' FNL & 1,980' FEL
Unit Letter G, Sec. 16-T22S-R28E
Eddy, NM

Application for Permit to Drill

Dear Mr. Arrant,

Attached you will find an original and 6 copies of a C-101, C-102, C-144, H2S contingency letter, blowout preventer requirements, mud program, plats, maps, rig plat and reserve pit diagram for the referenced well. Drilling operations are scheduled to begin approximately on **01/02/06**.

Please contact me if you have any additional questions.

Sincerely,

Josh Fernau
Staff Engineer