Form 3160-3
(July 1992)

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

UNITED S
DEPARTMENT OF
BUREAU OF LAND MANAGEMENT

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

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK: DRILL ☒ DEEPEN ☐	5. LEASE DESIGNATION AND SERIAL NO.: NMNM110348
1b. TYPE OF WELL: OIL WELL ☐ GAS WELL ☒ OTHER SINGLE ZONE ☐ MULTIPLE ZONE ☐	6. IF INDIAN, ALLOTTES OR TRIBE NAME:
2. NAME OF OPERATOR: Gruy Petroleum Management Co. 162683	7. UNIT AGREEMENT NAME:
3. ADDRESS AND TELEPHONE NO.: P.O. Box 140907 Irving TX 75014 972-401-3111	8. FARM OR LEASE NAME, WELL NO.: 35355 Merganser 6 Federal Com No. 1
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*): Section 6 - T25S - R27E; 660' FNL & ~~990'~~ 660' FWL per attached SN dated 11-3-05 EAH	9. API WELL NO.: 30-015-34526
	10. FIELD AND POOL, OR WILDCAT: Chosa Draw; Morrow 74980
	11. SEC. T.,R.,M., BLOCK AND SURVEY OR AREA: Sec. 6 T25S R27E
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*: 17 miles South of Carlsbad	12. COUNTY OR PARISH: Eddy 13. STATE: NM

RECEIVED
JAN 04 2006
OCD-ARTESIA

Carlsbad Controlled Water Basin

15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, T.O (Also to nearest drlg. unit line, if any)	16. NO. OF ACRES IN LEASE	17. NO. OF ACRES ASSIGNED TO THIS WELL
660'		320

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.	19. PROPOSED DEPTH	20. ROTARY OR CABLE TOOLS
NA	13000'	Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)	22. APPROX. DATE WORK WILL START*
3341' GR	March 15, 2006

23 PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE,SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	H-40 ST&C 13 3/8"	48#	200' WITNESS	225 sx circulate
12-1/4"	J-55 LT&C 9 5/8"	40 #	3200'	1000 sx circulate
8-3/4"	P-110 LT&C 5 1/2"	17 #	13000'	1920 sx TOC 2700'

From the base of the surface pipe through the running of production casing, the well will be equipped with a 5000 - psi BOP system. We are requesting a variance for the 13 3/8" surface casing and BOP testing from Onshore Order No. 2, which states all casing strings below the conductor shall be pressure tested to 0.22 psi per foot or 1500#, whichever is greater, but not to exceed 70% of the manufacturer's stated maximum internal yield. During the running of the surface pipe and the drilling of the intermediate hole we do not anticipate any pressures greater than 1000# and are requesting a variance to test the 13-3/8" casing and BOP system to 1000 # psi and to use rig pumps instead of an independent service company.

IN ABOVE SPACE, DESCRIBE PROPOSED 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 Zane Fawcett TITLE Mgr. Ops. Admin DATE 09-19-05

(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 TITLE ACTING FIELD MANAGER DATE DEC 29 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.

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

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 and Natural Resources Department

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
	74900	Glorieta ' Draw; Morrow

Property Code	Property Name	Well Number
	MERGANSER 6 FEDERAL COM	1

OGRID No.	Operator Name	Elevation
162683	Gruy Petroleum Management Co.	3337'

Surface Location

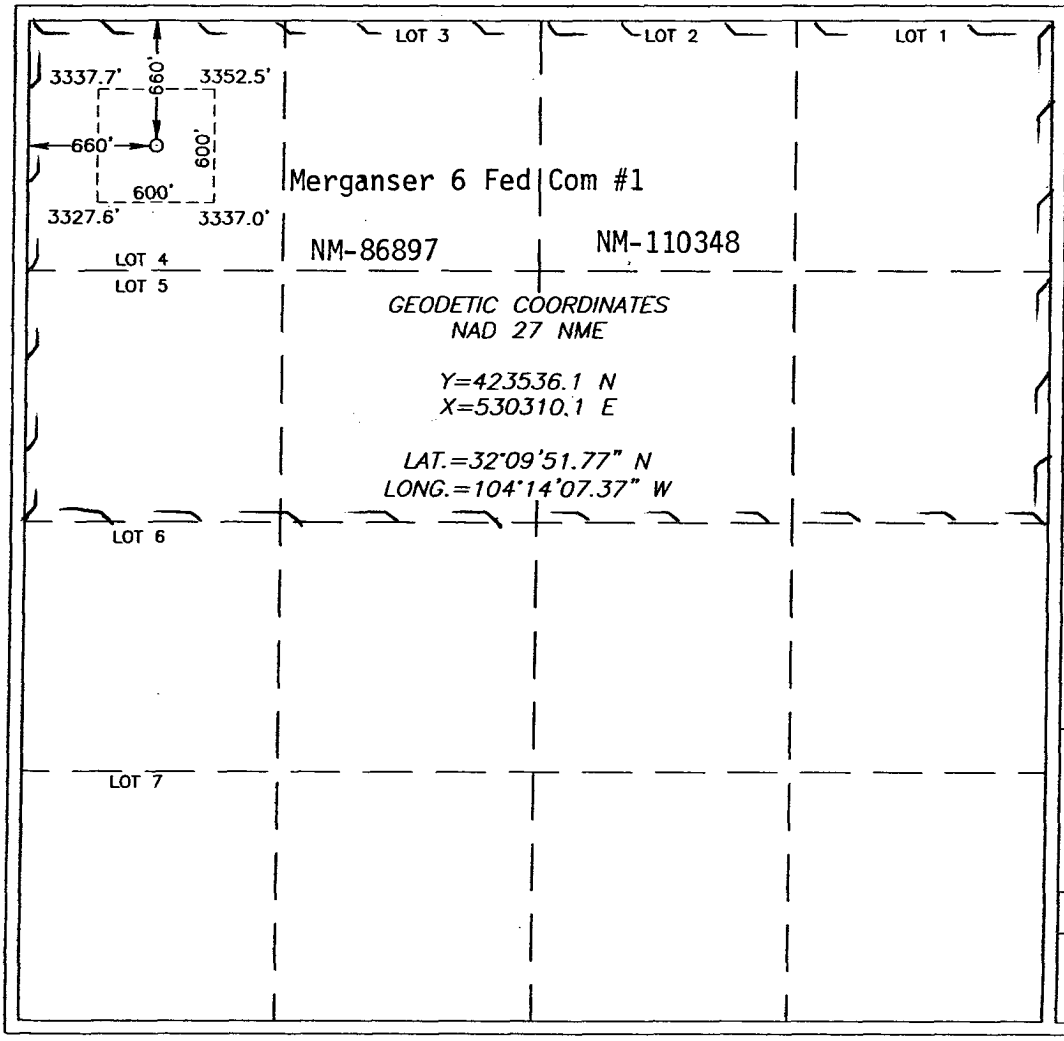
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
4	6	25-S	27-E		660	NORTH	660	WEST	EDDY

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.
320	N	C	

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.

Zeno Farris
Signature

Zeno Farris
Printed Name

Mgr Operations Admin
Title

November 3, 2005
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 supervison, and that the same is true and correct to the best of my belief.

OCTOBER 20, 2005
Date Surveyed JR

Signature & Seal of Professional Surveyor

RONALD J. EIDSON
NEW MEXICO
REGISTERED PROFESSIONAL SURVEYOR

10/25/05

05.11.1645

Certificate No. RONALD J. EIDSON 3239

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
March 12, 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

RECEIVED
SEP 29 2005
OCD-ARTESIA

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: Gruy Petroleum Management Co. Telephone: 972-443-6489 e-mail address: zfarris@magnumhunter.com
Address: P.O. Box 140907, Irving, Tx 75014-0907
Facility or well name: Merganser 6 Federal Com No. 1 API #: _____ U/L or Qtr/Qtr 4 Sec 6 T 25S R 27E
County: Eddy Latitude 320951.78 N Longitude 1041403.54 W 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 12 mil Clay ☐ Volume _____ bbl	Volume: _____ bbl Type of fluid: _____ Construction material: _____ Double-walled, with leak detection? Yes ☐ If not, explain why not.	
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)
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)
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)
	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: onsite ☐ offsite ☐ If offsite, name of facility_____. (3) Attach a general description of remedial action taken including remediation start date and en 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.

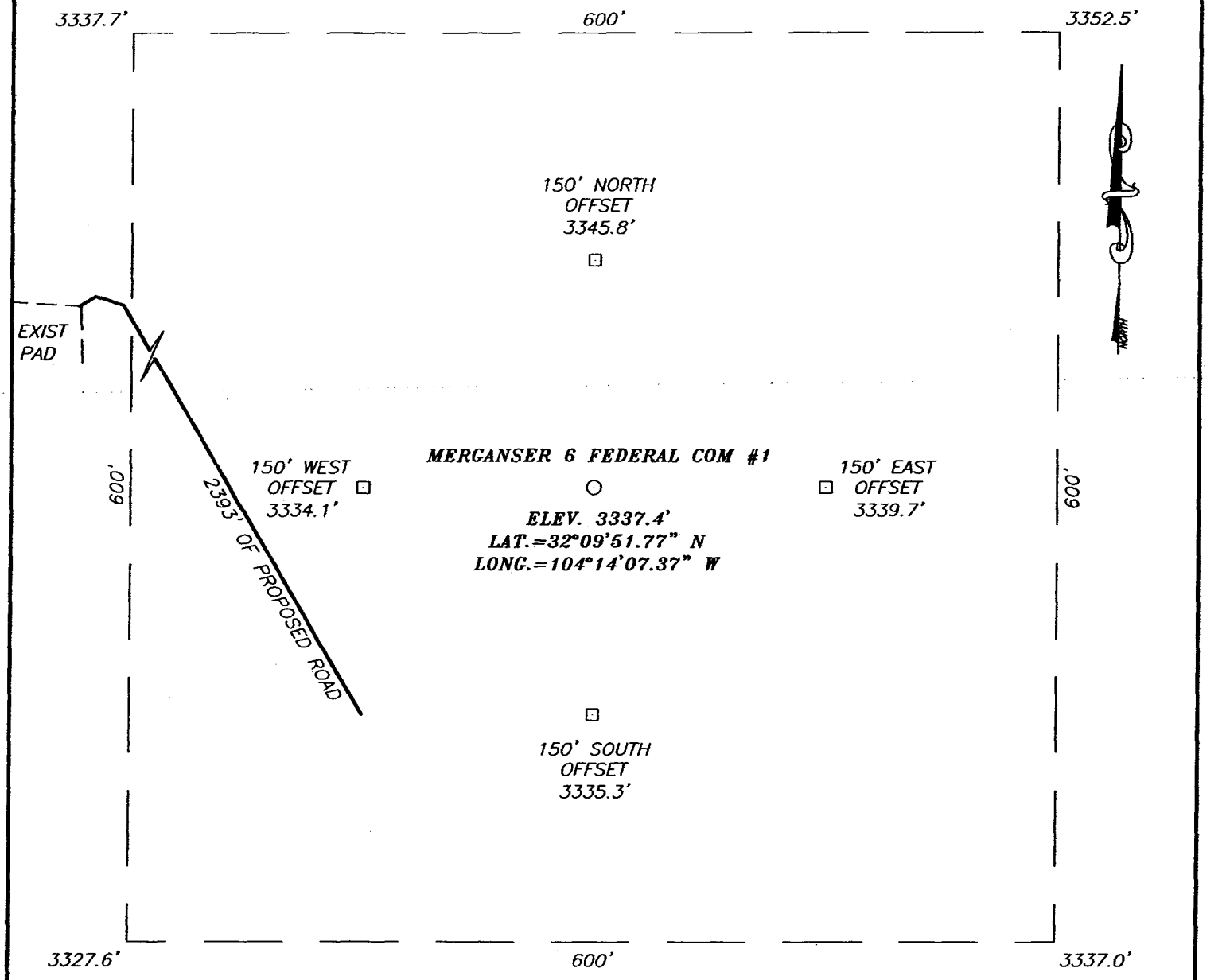
I hereby certify that the information above is true and complete to the best of my knowledge and belief. **I further certify that the above-described pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines ☒, a general permit ☐, or an (attached) alternative OCD-approved plan ☐.**
Date: 09-21-05
Printed Name/Title Zeno Farris Manager Operations Administration Signature Zeno Farris

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 Date: OCT 3 2005
Printed Name/Title Field Supervisor Signature

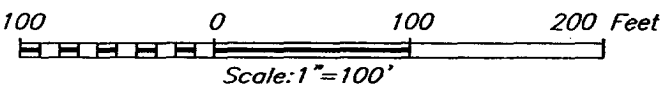
SECTION 6, TOWNSHIP 25 SOUTH, RANGE 27 EAST, N.M.P.M.,

EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF CO. RD. #720 (BLACK RIVER VILLAGE) AND CO. RD. #742 (JOHN C. FOREHAND) GO SOUTH ON CO. RD. #742 FOR APPROX. 3.9 MILES TO A CALICHE ROAD ON THE RIGHT. TURN RIGHT (WEST) AND GO APPROX. 0.8 MILES. TURN LEFT (SW) AND GO APPROX. 1.1 MILES. TURN LEFT (SOUTH) AND GO APPROX. 0.2 MILES. TURN LEFT (SE) AND GO APPROX. 0.6 MILES, VEER LEFT (SE) AND GO APPROX. 0.4 MILES. TURN LEFT (NORTH) AND GO APPROX. 0.3 MILES TO THE NWc OF PAD FOR THE MARQUARDT 1 FED #2 WELL. FOLLOW PROPOSED ROAD SURVEY FORM THE NWc OF PAD APPROX. 0.4 MILES TO THIS LOCATION.



Scale:1"=100'

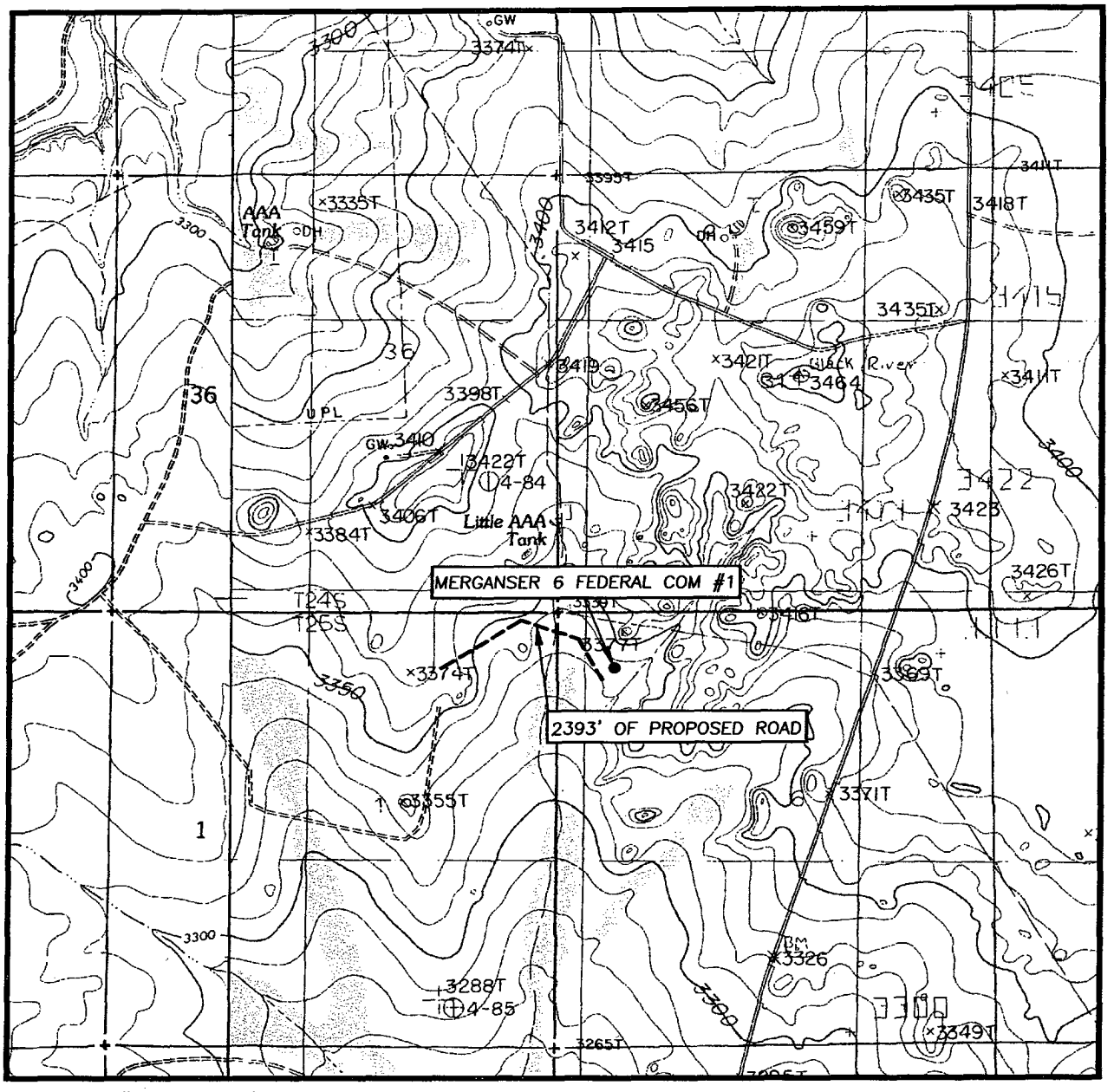
PROVIDING SURVEYING SERVICES SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(505) 393-3117

Gruy Petroleum management Co.

MERGANSER 6 FEDERAL COM #1 WELL
LOCATED 660 FEET FROM THE NORTH LINE
AND 660 FEET FROM THE WEST LINE OF SECTION 6,
TOWNSHIP 25 SOUTH, RANGE 27 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.

Survey Date: 10/20/05	Sheet 1 of 1 Sheets		
W.O. Number: 05.11.1645	Dr By: J.R.	Rev 1:N/A	
Date: 10/24/05	Disk: CD#5	05111645	Scale:1"=100'

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
BOND DRAW, N.M. – 10'
BLACK RIVER VILLAGE, N.M. – 20'

SEC. 6 TWP. 25-S RGE. 27-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 660' FNL & 660' FWL

ELEVATION 3337'

OPERATOR Gruy Petroleum Mgmt. Co.

LEASE MERGANSER 6 FEDERAL COM

U.S.G.S. TOPOGRAPHIC MAP
BOND DRAW, N.M.

PROVIDING SURVEYING SERVICES SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(505) 393-3117

Exhibit C

Gruy Petroleum Management Co.
600 East Las Colinas Blvd. • Suite 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (469) 420-2710
Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907

A wholly-owned subsidiary of Cimarex Energy, Inc., a NYSE company XEC

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

Bureau of Land Management
2909 West 2nd Street
Roswell New Mexico 88201-2019
Attn: Ms. Linda Askwig

Gruy Petroleum Management Co. accepts all applicable terms, conditions, stipulations and restrictions concerning operations conducted on the leased land, or portion thereof, as described below:

Lease No.: NMNM - 110348

Legal Description: N/2 Sec 6, T25S-R27E
Containing 320 acres, Eddy County New Mexico

Formation (S): Morrow/Atoka/Strawn

Bond Coverage: Nationwide BLM Bond

BLM Bond File No.: NM 2575

Authorized Signature: Zeno Farris

Representing Gruy Petroleum Management Co.

Name: Zeno Farris

Title: Manager, Operations Administration

Date: September 19, 2005

Application to Drill

Gruy Petroleum Management Co.
Merganser 6 Federal Com No. 1
Lot No. 1 Section 6
T25S - R27E Eddy County, NM

In response to questions asked under Section II B of Bulletin NTL-6 the following information is provided for your consideration:

1 Location: 660' FNL & 990' FWL

2 Elevation above sea level: GR 3341'

3 Geologic name of surface formation: Quaternery Alluvium Deposits

4 Drilling tools and associated equipment: Conventional rotary drilling rig using fluid as a circulating medium for solids removal.

5 Proposed drilling depth: 13000'

6 Estimated tops of geological markers:

T/Salt	200	Cisco Canyon	9,928
B/Salt	800	Strawn	10,078
Delaware	1,500	Atoka	10,388
Bone Spring	6,168	Morrow	11,158
Wolfcamp	8,098	Barnett	11,768

7 Possible mineral bearing formation:

Strawn	Gas
Atoka	Gas
Morrow	Gas

8 Casing program:

Hole Size	Interval	Casing OD	Weight	Thread	Collar	Grade
17 1/2"	0-200'	13 3/8"	48	8-R	ST&C	H-40
12 1/4"	0-1900'	9 5/8"	40	8-R	LT&C	J-55
8-3/4"	0-13000'	5 1/2"	17	8-R	LT&C	P-110

Application to Drill

Gruy Petroleum Management Co.
Merganser 6 Federal Com No. 1
Lot No. 1 Section 6
T25S - R27E Eddy County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 200' of 13 3/8" H-40 48# ST&C casing. Cement with 225 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 3200' of 9 5/8" J-55 40# LT&C casing or casing sufficient to reach the base of the reef complex. Cement lead with 800 sx Class POZ/C Cement + additives and tail with 200 sx Class "C" + additives, circulate cement to surface.
5 1/2"	Production	Set 13000' of 5 1/2" P-110 17# LT&C casing. Cement in two stages, first stage cement with 870 Sx. of Class POZ/C Cement + additives. Second stage cement with 1050 Sx of Class "C". Estimated top of cement 2700'.

10 Pressure control Equipment: Exhibit "E". A 13 3/8" 5000 PSI working pressure B.O.P. consisting of one set of blind rams and one set of pipe rams and a 5000 # annular type preventer. A choke manifold and 120 gallon accumulator with floor and remote operating stations and auxiliary power system. Rotating head below 6000'. A kelly cock will be installed and maintained in operable condition and a drill string safety valve in the open position will be available on the rig floor. BOP unit will be hydraulically operated. BOP will be nippled up on the 9 5/8" casing and will be operated at least once a day while drilling and the blind rams will be operated when out of hole during trips. No abnormal pressure or temperature is expected

11 Proposed Mud Circulating System:

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 - 200'	8.4 - 8.6	30 - 32	May lose circ.	Fresh water spud mud add paper to control seepage and high viscosity sweeps to clean hole.
200' - 1900'	9.7 - 10.0	28 - 29	May lose circ	Brine water. Add paper as needed to control seepage and add lime to control pH (9-10). Use high viscosity sweeps to clean hole.
1900' - 8300'	8.4 - 9.9	28 - 29	NC	Fresh water. Paper for seepage. Lime for pH (9 - 9.5)
8300' - 10000'	8.45 - 8.9	28 - 29	NC	Cut brine. Caustic for pH control.
10000' - 13000'	8.9 - 9.7	29 - 45	NC	XCD Polymer mud system.

Sufficient mud materials will be kept on location at all times in order to combat lost circulation, or unexpected kicks. In order to run DST's, open hole logs, and casing, the viscosity and water loss may have to be adjusted in order to meet these needs. Mud system monitoring equipment with derrick floor indicators and visual/audio alarms shall be installed and operative prior to drilling into the Wolfcamp formation. This equipment will remain in use until production casing is run and cemented.

Application to Drill

Gruy Petroleum Management Co.
Merganser 6 Federal Com No. 1
Lot No. 1 Section 6
T25S - R27E Eddy County, NM

12 Testing, Logging and Coring Program:

A. Mud logging program: One-man unit from 8000' to TD

B. Electric logging program: CNL / LDT / CAL / GR, DLL / CAL / GR

C. No DST's, or cores are planned at this time.

13 Potential Hazards:

No abnormal pressures or temperatures or H2S gas are expected. Adequate flare lines will be installed off the mud / gas separator where gas may be flared safely. All personnel will be familiar with all aspects of safe operation of equipment being used. Estimated BHP 4000 PSI, estimated BHT 190 .

14 Anticipated Starting Date and Duration of Operations:

Road and location construction will begin after BLM approval of APD. Anticipated spud date as soon as approved. Drilling expected to take 35 - 45 days. If production casing is run an additional 30 days will be required to complete and construct surface facilities.

15 Other Facets of Operations:

After running casing, cased hole gamma ray neutron collar logs will be run from total depth over possible pay intervals. The Strawn / Morrow / Atoka pay will be perforated and stimulated. The well will be tested and potentialed as a gas well.

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 operation of H2S detectors, warning system and briefing
   E. Evacuation procedure, routes and first aid.
   F. Proper use of 30 minute pressure demand air pack.

2 H2S Detection and Alarm Systems

   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 mudpit area should be high enough to be visible.
   B. Windsock at briefing area should be high enough to be visible.

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 and danger. Red flag, danger, H2S present in dangerous concentration. Only emergency personnel admitted to location.

5 Well control equipment

   A. See exhibit "E"

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 Drillstem Testing Not Anticipated

8 Drilling contractor supervisor will be required to be familiar with the effects H2S has on tubular goods and other mechanical equipment.

9 If H2S is encountered, mud system will be altered if necessary to maintain control of formation. A mud gas seperator will be brought into service along with H2S scavengers if

Surface Use Plan

Gruy Petroleum Management Co.
Merganser 6 Federal Com No. 1
Lot No. 1 Section 6
T25S - R27E Eddy County, NM

1 Existing Roads: Area maps, Exhibit "B" is a reproduction of Lea Co. General Highway Map. Exhibit "C" is a reproduction of a USGS Topographic Map, showing existing roads and proposed roads. All existing roads will be maintained in a condition equal to or better than current conditions. Any new roads will be constructed to BLM specifications.

A. Exhibit "A" shows the proposed well site as staked.

B. From the intersection of Co. Rd. #720 (Black River Village Road) and Co. Rd. #742 (John D. Forehand Road), go South on Co. Rd. #742 approx. 4.0 miles. Turn right (West) and go approx. 0.8 miles. Turn right (Southwest) and go approx 1.2 miles. Turn left (East-Southeast) and go approx 0.7 miles. Turn left (East) and go approx 0.3 miles to an intersection. Continue East and go approx. 0.4 miles to proposed road survey. This location is approx. 2600' North-Northeast along proposed road survey.

2 PLANNED ACCESS ROADS: 2600' of access road will be constructed all on lease NMNM-110348

3 LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A"

A. Water wells - None Know

B. Disposal wells - None known

C. Drilling wells - None known

D. Producing wells - As shown on Exhibit "A"

E. Abandoned wells - As shown on Exhibit "A"

Surface Use Plan

Gruy Petroleum Management Co.
Merganser 6 Federal Com No. 1
Lot No. 1 Section 6
T25S - R27E Eddy County, NM

4 If, on completion this well is a producer Gruy Petroleum Management Co. will furnish maps and/or plats showing on site facilities or off site facilities if needed. This will be accompanied with a Sundry Notice.

5 LOCATION AND TYPE OF WATER SUPPLY:

Water will be purchased locally from a commercial source and trucked over the access roads or piped in flexible lines laid on top of the ground.

6 SOURCE OF CONSTRUCTION MATERIAL:

If possible construction will be obtained from the excavation of drill site, if additional material is needed it will be purchased from a local source and

7 METHODS OF HANDLING WASTE MATERIAL:

A. Drill cuttings will be disposed of in the reserve pit.

B. All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering. When the job is completed all contents will be removed and disposed of in a approved sanitary land fill.

C. Salts remaining after completion of well will be picked up by supplier including broken sacks.

D. Sewage from living quarters will drain into holding tanks and be cleaned out periodically. A Porta-John will be provided for the rig crews. This equipment will be properly maintained during the drilling operations and removed upon completion of the well.

E. Remaining drilling fluids will be allowed to evaporate in the reserve pit until the pit is dry enough for breaking out. In the event that drilling fluids do not evaporate in a reasonable time they will be hauled off by transports and be disposed of at a state approved disposal facility. Later pits will be broken out to speed drying. Water produced during testing will be put in reserve pits. Any oil or condensate produced will be stored in test tanks until sold and hauled from the site.

8 ANCILLARY FACILITIES:

A. No camps or airstrips to be constructed.

9 WELL SITE LAYOUT

A. Exhibit "D" shows location and rig layout.

B. This exhibit indicates proposed location of reserve and trash pits; and living facilities.

C. Mud pits in the active circulating system will be steel pits and the reserve pit is proposed to be unlined, unless subsurface condition encountered during pit construction indicate that lining is needed for lateral containment of fluids.

D. If needed, the reserve pit is to be lined with PVC or polyethylene line. The pit liner will be 6 mils thick. Pit liner will extend a minimum, 2'00" over the reserve pits dikes where the liner will be anchored down.

E. The reserve pit will be fenced on three sides with four strands of barbed wire during drilling and completion phases. The fourth side will be fenced after all drilling operations have ceased. If the well is a producer, the reserve pit fence will be torn down. The reserve pit and those areas of the location not essential to production facilities will be reclaimed and seeded per BLM requirements.

10 PLANS FOR RESTORATION OF SURFACE

Rehabilitation of the location and reserve pit will start in a timely manner after all drilling operations cease. The type of reclamation will depend on whether the well is a producer or a dry hole.

However, in either event, the reserve pit will be allowed to dry properly, and fluid removed and disposed of in accordance with Article 7.B as previously noted. The pit area will then be leveled and contoured to conform to the original and surrounding area. Drainage systems, if any, will be reshaped to the original configuration with provisions made to alleviate erosion. These may need to be modified in certain circumstances to prevent inundation of the location's pad and surface facilities. After the area has been shaped and contoured, topsoil from the spoil pile will be placed over the disturbed area to the extent possible. Revegetation procedures will comply with BLM standards.

If the well is a dry hole, the pad and road area will be recountered to match the existing terrain. Topsoil will be spread to the extent possible. Revegetation will comply with BLM standards.

Should the well be a producer, the previously noted procedures will apply to those areas which are not required for production facilities.

Surface Use Plan

Gruy Petroleum Management Co.
Merganser 6 Federal Com No. 1
Lot No. 1 Section 6
T25S - R27E Eddy County, NM

11 OTHER INFORMATION:

A. Topography consists of a sloping plane with loose tan sands. Vegetation is mainly yucca, mesquite and shin oak.

B. The wellsite is on surface owned by The United States Department of the Interior, Bureau of Land Management. The land is used mainly for farming, cattle ranching, recreational use, and oil and gas production.

C. An Archaeological survey will be conducted on the location and proposed roads, and this report will be filed with the Bureau of Land Management in the Carlsbad BLM office.

12 OPERATORS REPRESENTATIVE:

Gruy Petroleum Management Company
P.O. Box 14097
Irving, TX 75014
Office Phone: (972) 443-6489
Zeno Farris

13 CERTIFICATION: I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which currently exit; that the statements made in this plan are to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed by Gruy Petroleum Management Company and/or its contractors/subcontractors and is in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provision of U.S.C. 1001 for the filing of a false statement.

NAME: Zeno Farris

DATE: September 19, 2005

TITLE: Manager, Operations Administration

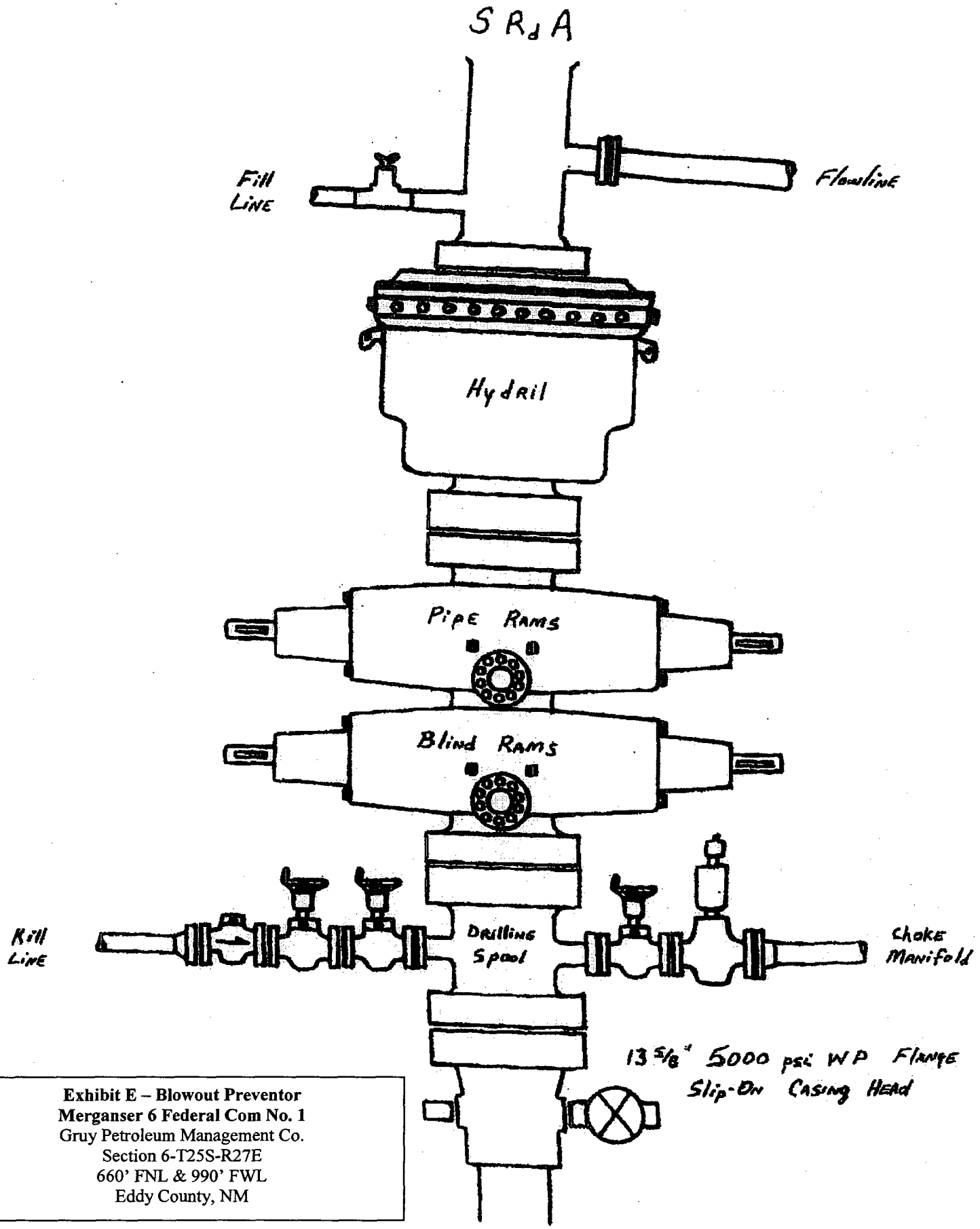


Exhibit E – Blowout Preventor
Merganser 6 Federal Com No. 1
Gruy Petroleum Management Co.
Section 6-T25S-R27E
660' FNL & 990' FWL
Eddy County, NM

DRILLING OPERATIONS
CHOKE MANIFOLD
5M SERVICE

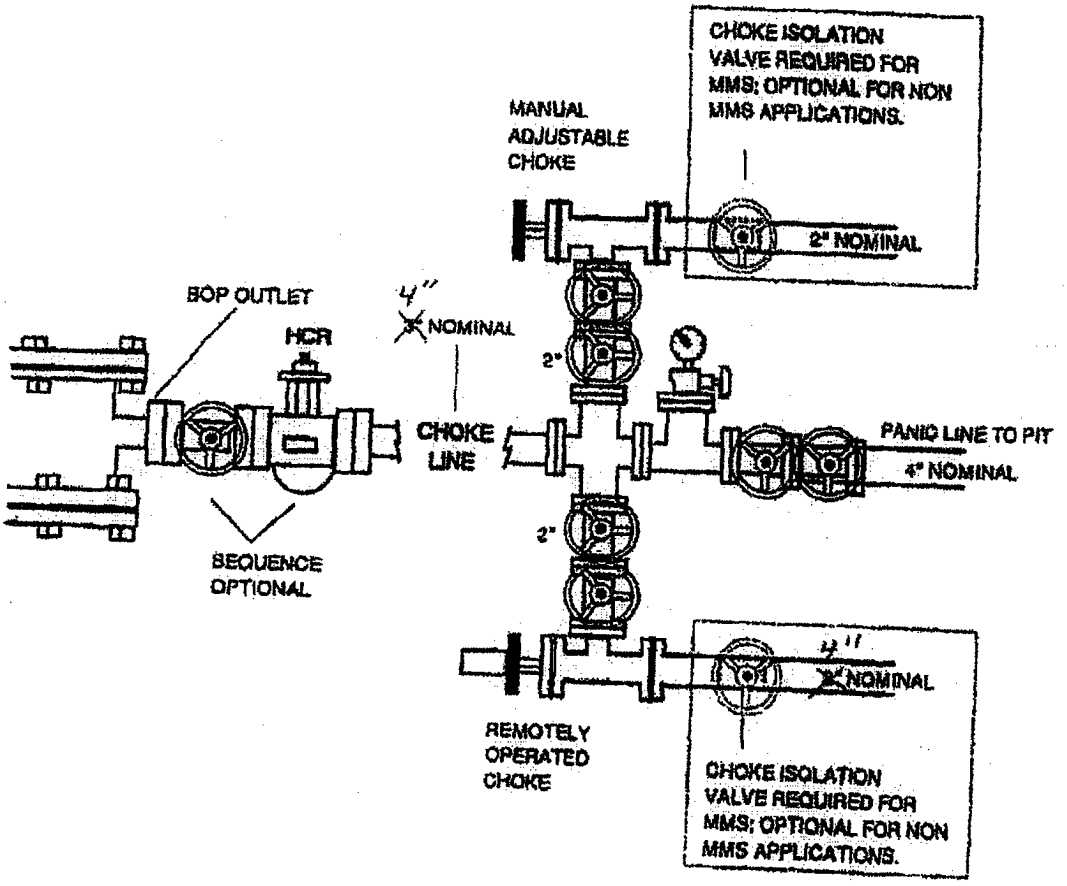


Exhibit E1 – Choke Manifold Diagram
Merganser 6 Federal Com No. 1
Gruy Petroleum Management Co.
Section 6-T25S-R27E
660' FNL & 990' FWL
Eddy County, NM

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: **Gruy Petroleum Management Co.**
Well Name & No. **Merganser 6 Federal Com #1**
Location: **660' FNL, ~~990'~~ 660' FWL, Section 6, T. 25 S., R. 27 E., Eddy County, New Mexico**
Lease: **NM-110348** per attached SN dated 11-3-05 GAH

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County in sufficient time for a representative to witness:

   A. Well spud

   B. Cementing casing: **13-3/8** inch **9-5/8** inch **5-1/2** inch

   C. BOP tests

2. A Hydrogen Sulfide (H2S) Drilling Operation Contingency Plan shall be activated prior to drilling into the **Delaware** formation. A copy of the plan shall be posted at the drilling site.

3. 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.

4. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15-day time frame.

5. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

6. A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any sales.

II. CASING:

1. The **13-3/8** inch surface casing shall be set at **approximately 200 feet and cement circulated to the surface**. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the **9-5/8** inch intermediate casing is **to be circulated to the surface**.

3. The minimum required fill of cement behind the **5-1/2** inch production casing is **to reach at least 500 feet above the top of the uppermost hydrocarbon productive interval**.

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the **13-3/8** inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

NOTE: A variance to test the 13-3/8 inch casing to 1000 # is granted.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **5000** psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

IV. DRILLING MUD:

Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the **Wolfcamp** formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

- Recording pit level indicator to indicate volume gains and losses.
- Mud measuring device for accurately determining the mud volumes necessary to fill the hole during trips.
- Flow-sensor on the flow-line to warn of abnormal mud returns from the well.

9/28/05
acs