

Form 3160-3
(April 2004)

RE-SUBMITAL

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0137
Expires March 31, 20075. Lease Serial No.
NM4175B 04175B
6. If Indian, Allottee or Tribe Name1a. Type of work: ☒ DRILL☐ REENTER

34198

1b. Type of Well:

☒ Oil Well☐ Gas Well☐ Other☐ Single Zone☐ Multiple Zone

2. Name of Operator

SDX Resources, Inc.

20451

3a. Address PO Box 5061

Midland, TX 79704

3b. Phone No. (include area code)

432-685-1761

57300

4. Location of Well (Report location clearly and in accordance with any State requirements.)

At surface

508' FNL 1850' FEL

At proposed prod. zone Same

MAR 28 2006

OCD-ARTESIA

7. If Unit or CA Agreement, Name and No.

8. Lease Name and Well No.
CC Federal #2 Q

9. API Well No.

30-015-34737

10. Field and Pool, or Exploratory
Red Lake, QN-GB-SA

11. Sec., T. R. M. or Blk. and Survey or Area

Sec 17, T18S, R27E, Unit B

14. Distance in miles and direction from nearest town or post office*

7 miles East of Artesia, NM

12. County or Parish

Eddy

13. State

NM

15. Distance from proposed*

464'

location to nearest

property or lease line, ft.

(Also to nearest drg. unit line, if any) 464'

16. No. of acres in lease

200

17. Spacing Unit dedicated to this well

40

18. Distance from proposed location*

to nearest well, drilling, completed,

applied for, on this lease, ft.

2531'

19. Proposed Depth

2800'

20. BLM/BIA Bond No. on file

NM2307

21. Elevations (Show whether DF, KDB, RT, GL, etc.)

3418' GR

22. Approximate date work will start*

03/15/2006

23. Estimated duration

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, shall be attached to this form:

1. Well plat certified by a registered surveyor.

2. A Drilling Plan.

3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).

4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).

5. Operator certification

6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature

Bonnie Atwater

Name (Printed/Typed)

Bonnie Atwater

Date

02/17/2006

Title

Regulatory Tech

Approved by (Signature)

/s/ James Stovall

Name (Printed/Typed)

/s/ James Stovall

Date

MAR 25 2006

Title

FIELD MANAGER

Office

CARLSBAD FIELD OFFICE

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, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make 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.

*(Instructions on page 2)

Witness Surface Casing

Roswell Controlled Water Basin

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTN

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

District I
1825 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 & Natural Resources

OIL CONSERVATION DIVISION

2040 South Pacheco

Santa Fe, N M 87505

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 51300	Pool Name Red Lake, QN-GB-SA
Property Code 34198	Property Name C C FEDERAL	Well Number 2
OGRID No. 020451	Operation Name SDX RESOURCES, INC.	Elevation 3418

Surface Location

UL or Lot No. B	Section 17	Township 18-S	Range 27-E	Lot Idn.	Feet from the 508	North/South line NORTH	Feet from the 1850	East/West line EAST	County EDDY
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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 40	Joint or Infill	Consolidation Code	Order No.						

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 HEREIN IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.
	Signature <i>Bonnie Atwater</i>
	Printed Name Bonnie Atwater
	Title Regulatory Tech
	Date 6/24/04
	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.
	JUNE 14, 2004
	Date of Survey
	Signature and Seal of Professional Surveyor

original on file

DRILLING PROGRAM
SDX Resources Inc.
CC Federal # 2
508' FNL, 1850' FEL
Unit B, Sec. 17, T18S, R27E
Eddy Co., NM

1. Geologic Name of Surface Formation:

Permian

2. Estimated Tops of Important Geologic Markers:

Queen 540'
Grayburg 990'
San Andres 1200'

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

Water Sand 150' - 200' Fresh Water

San Andres 1700' Oil & Gas

Fresh water sands will be protected by running 8-5/8" casing to a minimum depth of 1150' 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:

<u>Hole Size</u>	<u>Interval</u>	<u>OC Csg</u>	<u>Weight Grade Jt Cond Type</u>
12-1/4"	0 - 1175 ^{410'}	8-5/8"	24#, J55, New WITNESS
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 375 sx of Class C 35/65 POZ Lite and 200 sxs "C" with 2% CaCl and 1/4#/sx Flocele.

5-1/2" Production Casing: Cemented with 300 sx of Class C and 300 sx of Lite C with 6# salt/sx and 1/4#/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 nipped 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:

<u>Depth</u>	<u>Type</u>	<u>Weight (ppg)</u>	<u>Viscosity (sec)</u>	<u>Waterloss (cc)</u>
0 - 1175	Fresh Water (spud)	8.5	40 - 45	N/C
1175 - 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 1150' 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 March 15, 2006. 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.

SURFACE USE AND OPERATIONS PLAN
SDX RESOURCES, INC.
CC Federal # 2
508' FNL, 1850' FEL
Unit B, Sec. 17, T18S, R27E
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 Exhibits #3A-B. The existing roads 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. Turn S. on CR 204. Follow 204 to intersection of CR-225. Turn right or W. on CR-225. Follow road map on exhibit 3-B 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:

Exhibits #3A-B shows the existing road.

~50' of new road is needed. Existing & proposed roads are shown in exhibits 3A-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 battery consisting of 2-300 bbl. stock tanks, a 300 bbl. FG water tank, and a 4X20 heater treater will be constructed on the existing caliche drilling pad.
 - 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 recontour the pit area to the original natural level, as nearly as possible, and reseeded as per BLM specifications.

5. Location and Type of Water Supply:

The well will be drilled with a combination of brine and fresh water mud systems as outlined in the drilling program. The brine and fresh water will be obtained from commercial water stations in the area and hauled to roads shown in Exhibit #3. No water well will be drilled on the location.

6. Source of Construction Materials:

All caliche required for construction of the drill pad and any new access road will be obtained from the drilling pits and/or on site when possible. Any additional caliche will be obtained from approved caliche pits. All roads and pads will be constructed of 6" rolled and compacted caliche.

7. Methods of Handling Water Disposal:

- A. Drill cuttings not retained for evaluation purposes will be disposed into the reserve pit.
- B. Drilling fluids will be contained in plastic lined pits. The reserve pit will contain any excess drilling fluid or flow from the well during drilling, cementing and completion operations. The reserve pit will be an earthen pit, approximately 80' x 100' x 6' deep, fenced, and plastic-lined (5-7 mil thickness).
- C. Water produced from the well during completion may be disposed into the reserve pit. After the well is permanently placed on production, produced water will be trucked to an approved disposal site.
- D. Garbage and trash produced during drilling or completion operations will be collected in a trash trailer by a contractor. All water and fluids will be disposed of into the reserve pit. Salts and other chemicals produced during drilling or testing will be disposed into the reserve pit. No toxic waste or hazardous chemicals will be produced by this operation.
- E. After the rig is moved out and the well is either completed or abandoned, all waste materials will be cleaned-up within 90 days. No adverse materials will be left on the location. The reserve pit will be completely fenced and kept closed until it has dried. When the reserve pit is dry enough to breakout and fill and as weather permits the unused portion of the well site will be leveled and reseeded as per BLM specifications. Only that part of the pad required for production facilities will be kept in use.

8. Ancillary Facilities:

None

9. Well Site Layout:

- A. The drill pad layout is shown in Exhibit #5. Dimensions of the pad and pits and location of major rig components are shown. Top soil, if available, will be stockpiled per BLM specifications as determined at the on-site inspection. Because the pad is almost level no major cuts will be required.

- B. Exhibit #5 shows the planned orientation for the rig and associated drilling equipment, reserve pit and access road. No permanent living facilities are planned but a temporary foreman/toolpusher's trailer will be on location during the drilling operations.
- C. The reserve pit will be lined with high-quality plastic sheeting (5-7 mil thickness).

10. Plan for Restoration of the Surface:

- A. Upon completion of the proposed operation, if the well is to be abandoned, the pit area, after being allowed to dry, will be broken out and leveled. The original top soil will be returned to the entire location which will be leveled and contoured to as nearly the original topography as possible.

All trash and garbage will be hauled away in order to leave the location in an aesthetically pleasing condition. All pits will be filled and the location leveled within 120 days after abandonment.
- B. The disturbed area will be revegetated by reseeding during the proper growing season with a seed mixture of native grasses as recommended by the BLM.
- C. The reserve pit will be fenced prior to and during drilling operations. The fencing will remain in place until the pit area is cleaned-up and leveled. No oil will be left on the surface of the fluid in the pit.
- D. Upon completion of the proposed operations, if the well is completed, the reserve pit area will be treated as outlined above within the same prescribed time. The caliche from any area of the original drill site not needed for production operations or facilities will be removed and used for construction of thicker pads. Any additional caliche required for facilities will be obtained from an approved caliche pit. Topsoil removed from the drill site will be used to restore the pit area and any unused portions of the drill pad to the original natural level and reseeded as per BLM specifications.

11. Surface Ownership:

BLM
Grazing Leased to:

12. Other Information:

- A. The area around the well site is grassland. The vegetation is native scrub grasses with abundant catclaw and mesquite.
- B. There is no permanent or live water in the immediate area.

C. An archaeological survey is being performed and will be forwarded.

13. Lessee's and Operator's Representative:

The SDX Resources Inc. representative for assuring compliance with the surface use plan is as follows:

Chuck Morgan
SDX Resources Inc.
PO Box 5061
Midland, TX 79704
432/685-1761 Office
432/685-0533 Fax

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 exist; that the statements made in this plan are to the best of my knowledge, true and correct; and the work associated with the operations proposed herein will be performed by SDX Resources Inc. and its contractors and subcontractors in conformity with this plan and the terms and conditions which it is approved.

SDX Resources Inc.



John Pool
Vice-President

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

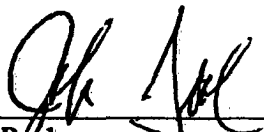
SDX Resources Inc.
PO Box 5061
Midland, TX 79704
432/685-1761

February 17, 2006

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.:	NM7715
Lease Name:	CC Federal #2
Legal Description of Land:	Unit M, 508' FNL 1850' FEL Sec. 17, T18S, R27E Eddy Co., NM
Formation (s):	Red Lake, QN-GB-SA
Bond Coverage:	Statewide Bond - State of New Mexico
BLM Bond File No.:	NM2307

Authorized Signature:



John Pool
Vice-President

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN
SDX Resources Inc.
CC Federal # 2
508' FNL, 1850' FEL
Sec. 17, T18S, R27E, Unit B
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.
4. Anticipated H₂S levels are below those that would mandate an H₂S Contingency Plan as required by the NMOCD.

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. 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 1150'.

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:

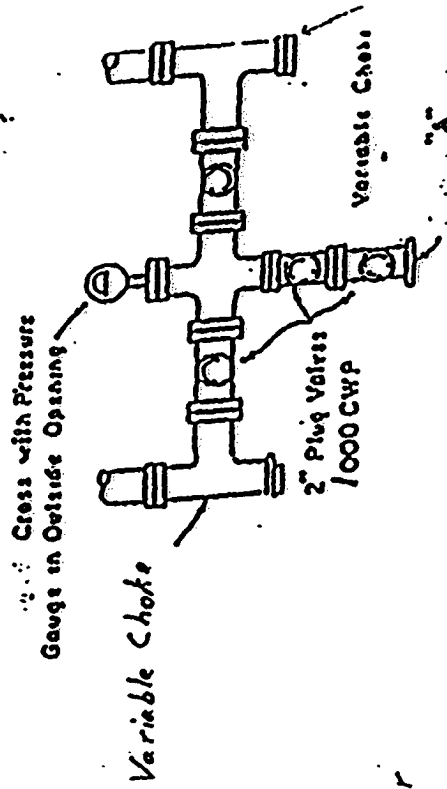
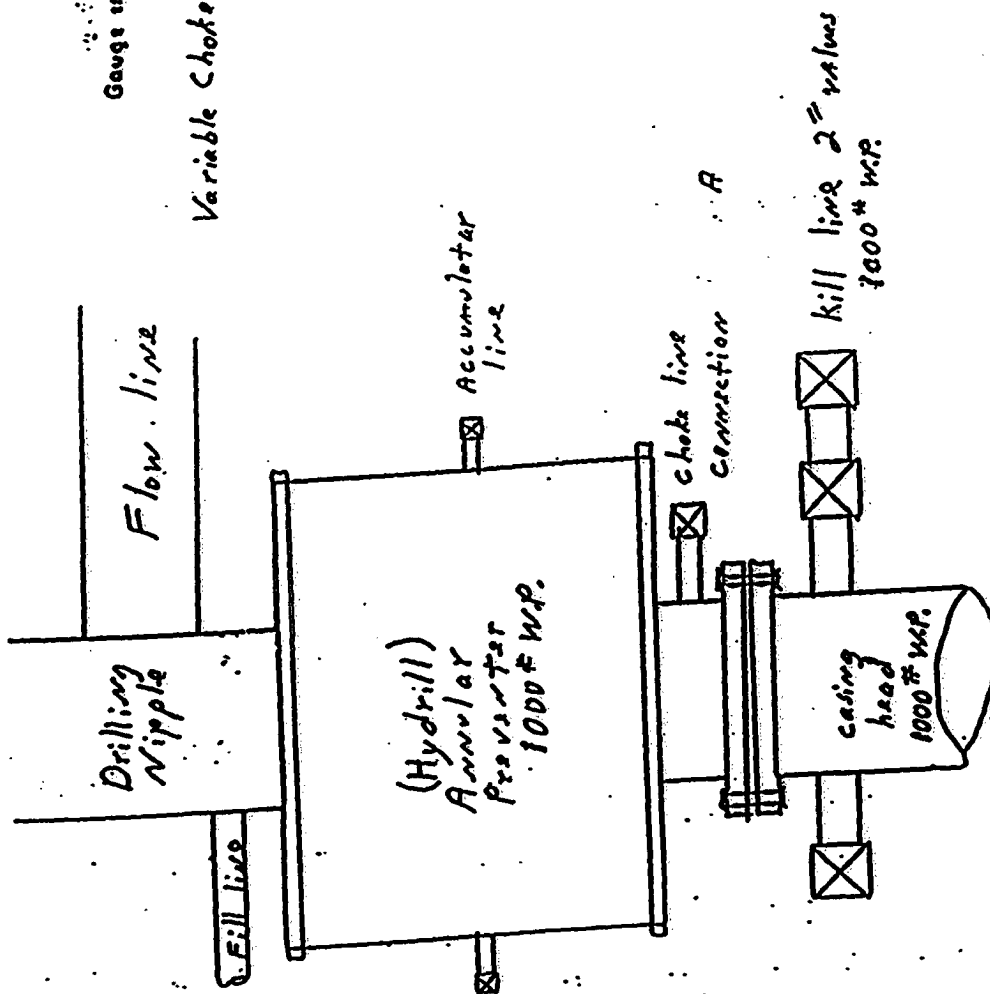
All drill strings, casings, tubing, wellhead, blowout preventers, drilling spool, kill lines, choke manifold and lines, and valves shall be suitable for H2S service as necessary.

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

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: SDX Resources, Inc.
Well Name & No. CC Federal #2
Location: 508' FNL, 1850' FEL, Section 17, T. 18 S., R. 27 E., Eddy County, New Mexico
Lease: NM-04175-B

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: 8-5/8 inch 5-1/2 or 4-1/2 inch
 - C. BOP tests
2. 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.
3. 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.
4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

I. CASING:

1. The 8-5/8 inch surface casing shall be set at approximately 410 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 5-1/2 or 4-1/2 inch production casing is to be sufficient 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 8-5/8 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.
2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 1000 psi. A variance to test to 1000 psi with the rig pumps is granted.
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.