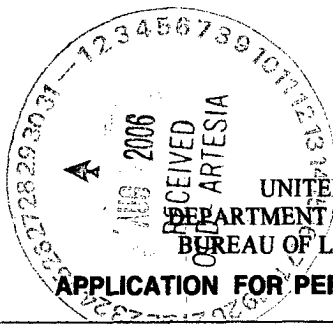


6-06-53

Form 3160-3
(April 2004)



OCD-ARTESIA

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, 2007

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM/110829
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name N/A
2. Name of Operator OGX Resources, LLC		7. If Unit or CA Agreement, Name and No. N/A
3a. Address P.O. Box 2064 Midland, Texas 79702		8. Lease Name and Well No. Black Eagle Federal #1 36001
3b. Phone No. (include area code) 432-685-1287		9. API Well No. 30-015-35126
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 660' FSL & 1500' FWL At proposed prod. zone Same as above		10. Field and Pool, or Exploratory Malaga; Morrow, West (Gas)
11. Sec., T. R. M. or Blk. and Survey or Area Sec 17, T-24S, R-28E		
12. Distance in miles and direction from nearest town or post office* 5 miles southwest of Loving, New Mexico		12. County or Parish Eddy County
13. State NM		
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'	16. No. of acres in lease 320	17. Spacing Unit dedicated to this well S/2 of Section 17
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. N/A	19. Proposed Depth 13,000'	20. BLM/BIA Bond No. on file NMB 000244
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3079'	22. Approximate date work will start* 06/01/2006	23. Estimated duration 55 Days

24. Attachments

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

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification
- Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature <i>Lindsay Truesdell</i>	Name (Printed/Typed) Lindsay Truesdell	Date 04/18/2006
Title Consultant		

Approved by (Signature) /s/ Tony J. Herrell	Name (Printed/Typed) /s/ Tony J. Herrell	Date AUG 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)

Carlsbad Controlled Water Basin

Witness Surface Casing

NOTE:
CAVE
1/11/07
STIF.

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

OCED-ARTESIA

FORM APPROVED
OMB No. 1004-0137
Expires: March 31, 2007

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

SUBMIT IN TRIPLICATE- Other instructions on reverse side.

1. Type of Well
☐ Oil Well ☒ Gas Well ☐ Other

2. Name of Operator **OGX Resources, LLC**

3a. Address
P.O. Box 2064; Midland, Texas 79702

3b. Phone No. (include area code)
432-685-1287

4. Location of Well: (Footage, Sec., T., R., M., or Survey Description)
**840' FSL & 1500' FWL
Sec. 17, T-24S, R-28E**

5. Lease Serial No.
110829

6. If Indian, Allottee or Tribe Name
N/A

7. If Unit or CA/Agreement, Name and/or No.
N/A

8. Well Name and No.
Black Eagle Federal #1

9. API Well No.

10. Field and Pool, or Exploratory Area
Malaga; Morrow, West (Gas)

11. County or Parish, State
Eddy County, NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other Move Location
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

As per our conversation with Todd Sutter on June 14, 2006, OGX Resources purposes to move the location from 600' FSL & 1500' FWL to 840' FSL & 1500' FWL.

**SUBJECT TO
LIKE APPROVAL
BY STATE**

14. I hereby certify that the foregoing is true and correct
Name (Printed/Typed)

Lindsay Truesdell

Title **Consultant**

Signature

Lindsay Truesdell

Date

06/14/2006

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

/s/ Tony J. Herrell

FIELD MANAGER

Date

AUG 25 2006

Conditions of approval, if any, are attached. Approval of this notice 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.

Office

CARLSBAD FIELD OFFICE

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)

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

Form C-102
Revised October 12, 2005

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code 80925	Pool Name Malaga; Morrow, West (Gas)
Property Code	Property Name BLACK EAGLE FEDERAL	Well Number 1
OGRID No. 217955	Operator Name OGX RESOURCES, L.L.C.	Elevation 3072'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	17	24 S	28 E		840	SOUTH	1500	WEST	EDDY

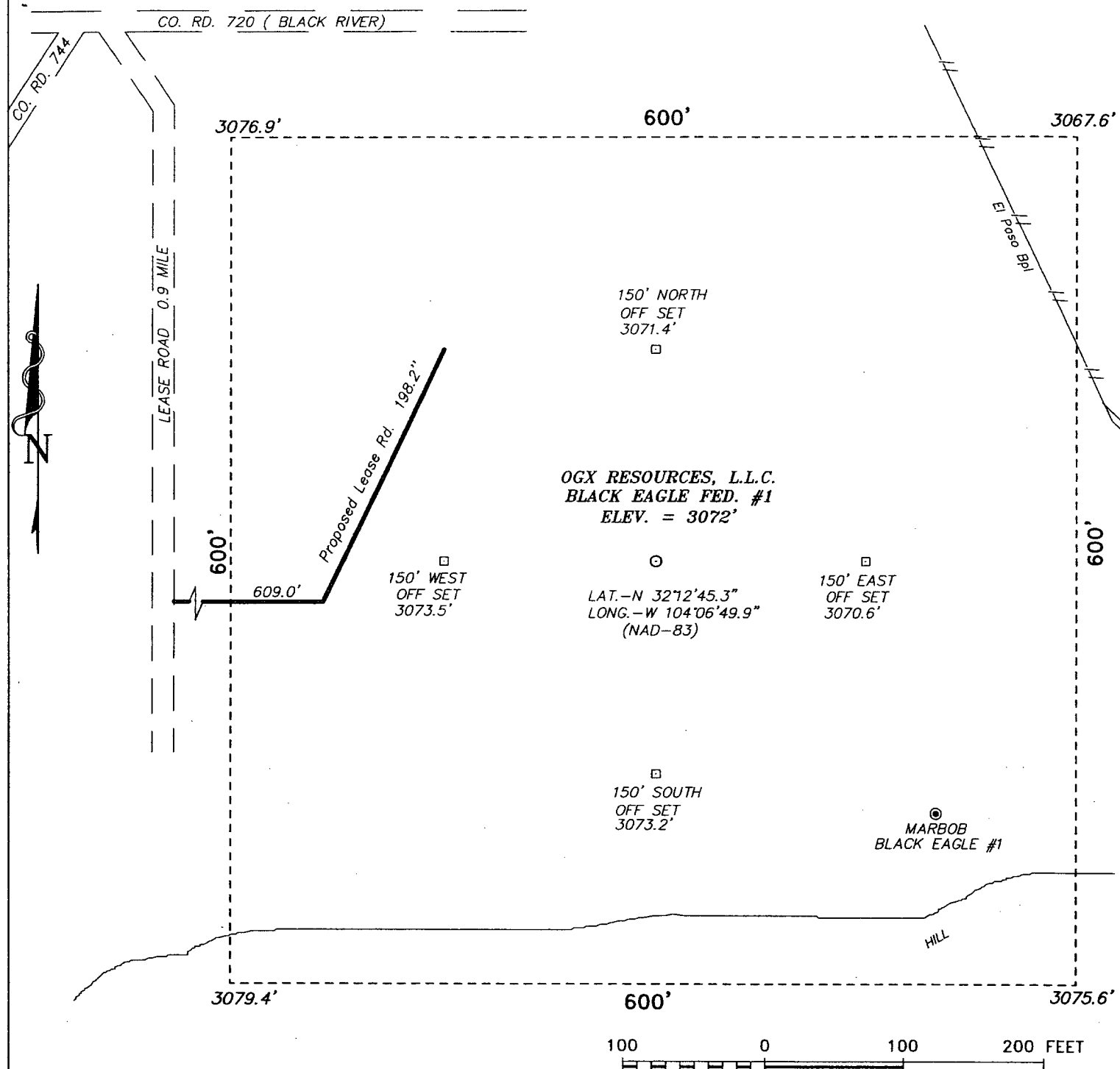
Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres 320	Joint or Infill	Consolidation Code	Order No.						

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 that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. Signature: <u>Lindsay Truedell</u> Date: <u>7/10/06</u> Printed Name: <u>Lindsay Truedell</u>
	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 belief. JUNE 28, 2006 Date Surveyed: _____ Signature & Seal of: <u>GARY L. JONES</u> Professional Surveyor NEW MEXICO W.O. No. <u>6845</u> Certified by: <u>Gary L. Jones</u> 7977 BASIC SURVEYORS

SECTION 17, TOWNSHIP 24 SOUTH, RANGE 28 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.



DIRECTIONS TO LOCATION:

FROM THE JUNCTION OF CO. RD. 716 AND
CO. RD. 720 TAKE LEFT FORK (LEASE ROAD)
FOR 0.9 MILE TO PROPOSED LEASE ROAD.

OGX RESOURCES, L.L.C.

REF: BLACK EAGLE FED. #1 / Well Pad Topo

BLACK EAGLE FED. #1 LOCATED 840' FROM THE
SOUTH LINE AND 1500' FROM THE WEST LINE OF
SECTION 17, TOWNSHIP 24 SOUTH, RANGE 28 EAST,
N.M.P.M., EDDY COUNTY, NEW MEXICO.

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

W.O. Number: 6845	Drawn By: J. M. SMALL
Date: 06-29-2006	Disk: 6845W
Survey Date: 06-28-2006	Sheet 1 of 1 Sheets

DRILLING PROGRAM

**OGX Resources LLC
Black Eagle Federal #1
Section 17, T-24-S, R-28-E
Lea County, New Mexico**

The following items supplement Form 3160-3 in accordance with instructions contained in Onshore Oil and Gas Orders #1 and #2, and all other applicable federal and state regulations.

1. **ESTIMATED TOPS OF GEOLOGIC MARKERS (TVD):**

Wolfcamp	9,400'
Strawn	11,600'
Atoka	11,800'
Morrow	12,400'
Total Depth	13,000'

2. **ESTIMATED DEPTHS TO WATER, OIL, OR GAS FORMATIONS:**

Fresh Water	Above 200'
Oil and Gas	Atoka, Morrow

3. Pressure control equipment: The blow out preventer equipment (BOP) shown in Exhibit #1 will consist of a 5000 psi 3M annular preventer for drilling the 12-1/4" hole. The blowout preventer stack for drilling the 9-1/2" hole as shown on Exhibit #2 will consist of at least a double-ram blowout preventer and annular preventer rated to 5000 psi working pressure. A diagram of the BOPs and choke manifold is attached. All BOPs and accessory equipment will be tested according to Onshore Order #2 before drilling out.

4. **PROPOSED CASING PROGRAM:**

<u>Hole Size</u>	<u>Interval</u>	<u>Casing Size</u>	<u>Weight</u>	<u>Grade, Joint</u>
17-1/2"	0 – 520'	13-3/8"	48#	H-40, STC
12-1/4"	0 – 2,100'	9-5/8"	36#	K-55, STC
8-3/4"	0 – 9,400'	7"	26#	P-110, LTC
6-1/2"	9,100'–13,000'	4-1/2"	11.6#	P-110, LTC

Equivalent or adequate grades and weights of casing may be substituted at time casing is run, depending on availability. Changes will be relayed to BLM prior to running.

5. PROPOSED CEMENTING PROGRAM

20" conductor	cemented with ready mix to surface
13-3/8" surface	650 sxs 35:65 POZ/C w/ 6% Bentonite + 2% CaCl ₂ + .25# Cello-Seal
	300 sxs Class "C" w/ 2% CaCl ₂
9-5/8" intermediate	700 sxs 35:65 POZ/C w/ 6% Bentonite + 2% CaCl ₂ + .25# Cello-Seal
	220 sxs Class "C" w/ 2% CaCl ₂
7" production	560 sxs IFH cement w/ .1% HR-7 followed by 300 sxs PP Cement
	340 sxs IFH cement w/ .25#/sx Flowseal followed by 240 sxs PP Cement
4-1/2" liner	250 sxs Super H cement w/ .5% LFLC = 4% CFR-3 +5#/sx + 1#/sx satl + .2# HT-7

6. PROPOSED MUD SYSTEM:

<u>DEPTH</u>	<u>DESCRIPTION</u>	<u>MUD WEIGHT</u>	<u>VISCOSITY</u>	<u>WATER LOSS</u>
0 – 520'	fresh water	8.6 – 9.0 ppg	32– 34	NC
520' – 2,100'	brine water	9.9 – 10.0 ppg	28 – 29	NC
2,100' – 9,400'	fresh/brine water	8.4 – 10.0 ppg	28 – 29	NC
9,400' – 10,500'	brine water	10.0 – 10.1 ppg	28 – 29	NC
10,500' – 13,000'	fresh/brine/mud	10.1 – 13.5 ppg	38 – 45	6-10 cc

7. TESTING, LOGGING AND CORING PROGRAM:

Samples	
DST's	No DST's
Logging	CNL/LDT/CAL/GR, DLL/CAL/GR
Coring	No coring anticipated

8. ABNORMAL PRESSURES AND TEMPERATURES:

None anticipated. Maximum bottom hole pressure should not exceed 5,200 psi.

This area has a potential H₂S hazard. An H₂S drilling plan is attached.

ANTICIPATED STARTING DATE AND DURATION OF OPERATIONS:

It is planned that operations will commence on May 1, 2006. Drilling should be completed within 55 days followed by completion operations.

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

OGX RESOURCES, LLC.

Black Eagle Federal #1

I. HYDROGEN SULFIDE TRAINING

- A.** All regularly assigned personnel, contracted or employed by Cabal Energy Corporation, will receive training from a qualified instructor in the following areas prior to commencing drilling potential hydrogen sulfide bearing formations in this well:
 - 1.** The hazards and characteristics of hydrogen sulfide (H₂S).
 - 2.** The proper use and maintenance of personal protective equipment and life support systems.
 - 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.
- B.** 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.
- C.** There will be an initial training session just prior to encountering a known or probable H₂S zone (within 3 days or 500 feet) and weekly H₂S and well control drills for all personnel in each crew. The initial training session shall include a review of the site 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 EQUIPMENT AND SYSTEMS

Note: All H₂S safety equipment and systems will be installed, tested and operational when drilling reaches a depth of 500 feet above, or three days prior to penetrating the first zone containing or reasonably expected to contain H₂S.

A. Well Control Equipment.

- 1. Flare line with continuous pilot.**
- 2. Choke manifold with a minimum of one remote choke.**
- 3. Blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit.**
- 4. Auxiliary equipment to include: annular preventer, mud-gas separator, rotating head and flare.**

B. Protective Equipment for Essential Personnel:

Mark II Surviveair 30-minute units located in the doghouse and at briefing areas, as indicated on well site diagram.

C. H₂S Detection and Monitoring Equipment:

- 1. Two portable H₂S monitors positioned on location for best coverage and response. These units have warning lights and audible sirens when H₂S levels of 20 ppm are reached.**
- 2. One portable SO₂ monitor positioned near flare line.**

D. Visual Warning Systems

- 1. Wind direction indicators are shown on well site diagram.**
- 2. Caution/Danger signs shall be posted on roads providing direct access to location. Signs will be painted a high visibility yellow with black lettering of sufficient size to be readable at a reasonable distance from the immediate location. Bilingual signs will be used when appropriate. See example attached.**

E. Mud Program

- 1. The Mud Program has been designed to minimize the volume of H₂S circulated to the surface. Proper mud weights, safe drilling practices and the use of H₂S scavengers will minimize hazards when penetrating H₂S bearing zones.**

2. A mud-gas separator will be utilized as needed.

F. Metallurgy:

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

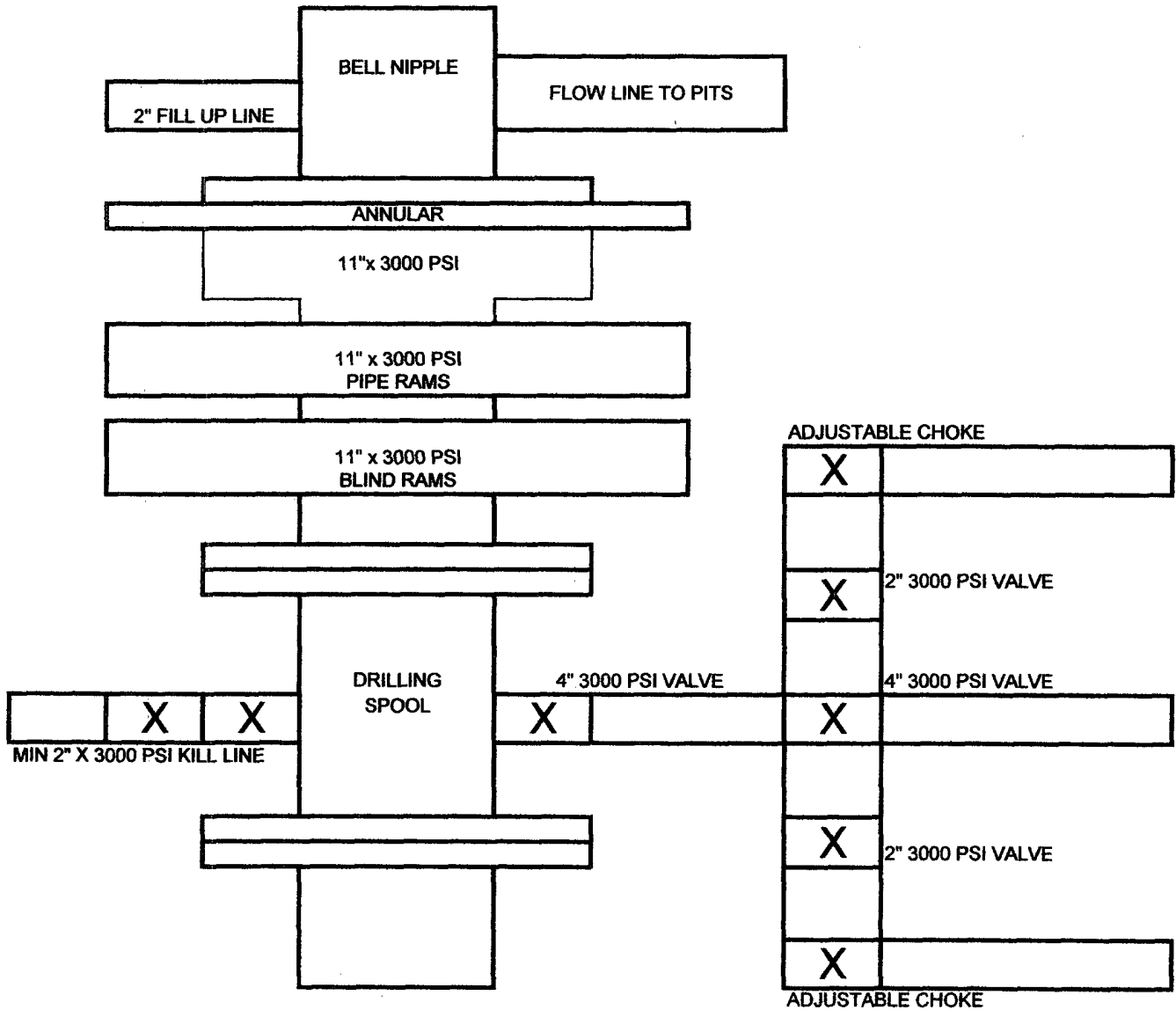
G. Communication:

Cellular telephone communications in company vehicles, rig floor and mud logging trailer.

H. Well Testing:

Drill stem testing will be performed with a minimum number of personnel in the immediate vicinity, which are necessary to safely and adequately conduct the test. The drill stem testing and an H₂S environment will be conducted during the daylight hours.

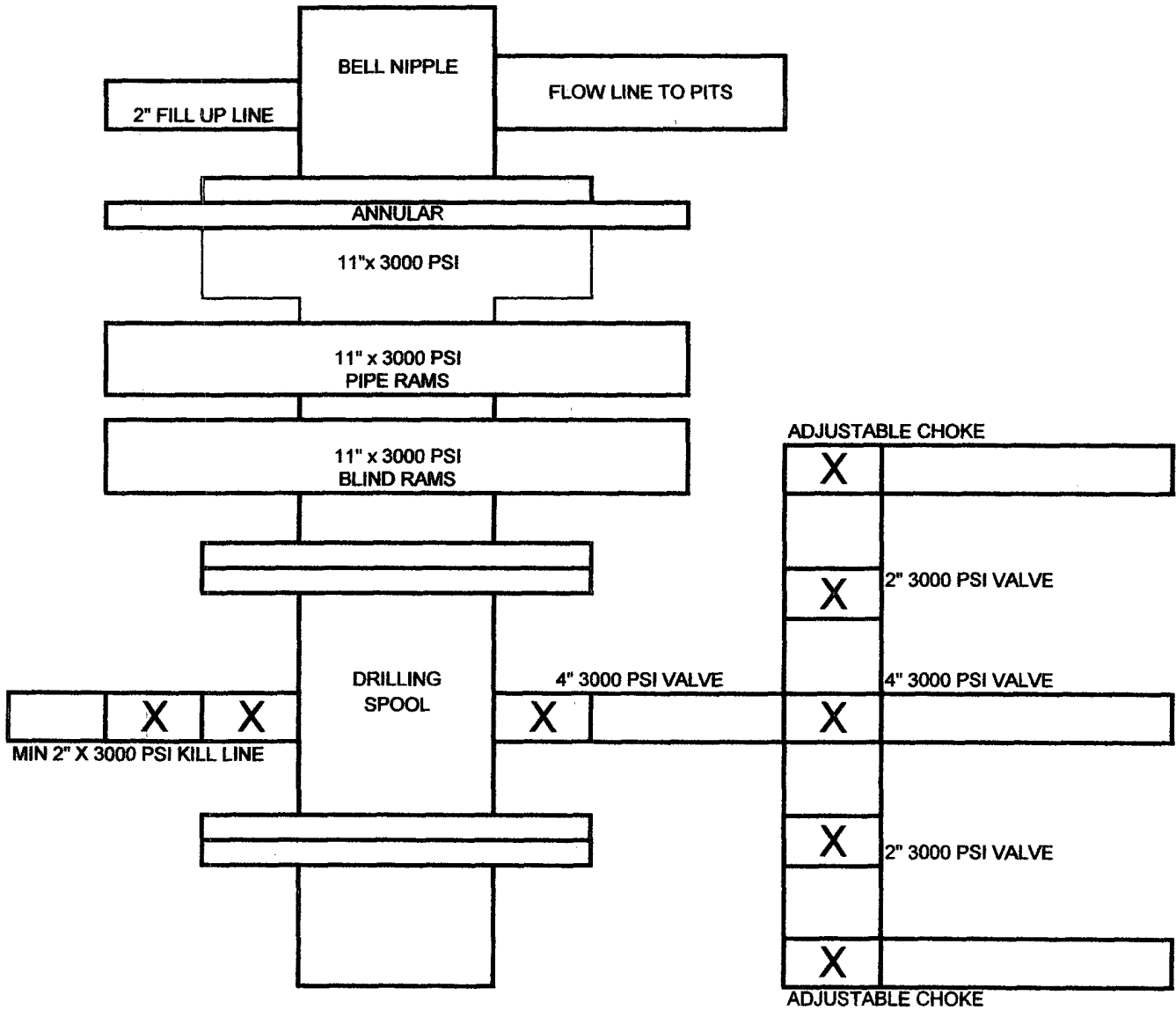
BOP SCHEMATIC FOR
12-1/4" HOLE



OGX Resources, LLC
Black Eagle Federal #1
Eddy County, New Mexico

Exhibit 1

BOP SCHEMATIC FOR
9-1/2" HOLE



OGX Resources, LLC
Black Eagle Federal #1
Eddy County, New Mexico

MULTI POINT SURFACE USE AND OPERATIONS PLAN FOR

**OGX Resources LLC
Black Eagle Federal #1**

Surface Location: ^{8240'}660' FSL & 1500' FWL
Section 17, T-24-S, R-28-E
Eddy County, New Mexico
Lease No.: 110829

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of the plan is to describe the location of the proposed well; the proposed construction activities and operations plan to be followed in rehabilitating the surface and environmental effects associated with the operation.

1. EXISTING ROADS:

- A. Exhibit "A" is a location verification map showing the location of the proposed well as staked.
- B. Directions: From the junction of Co. Rd #716 and Co. Rd. #720, go West for 1.0 mile to lease road; thence take left fork for 0.9 mile to proposed lease road.

2. PLANNED ACCESS ROAD:

- A. Length and Width: Exhibit "C" is the proposed access road. It will be approximately 693' long and 12' wide and run East to the West corner of the location.
- B. Construction: The proposed access road will be constructed by grading and topping with compacted caliche. The surface will be properly drained.
- C. Turnouts: None required.
- D. Culverts: None necessary.
- E. Cuts and Fills: 1' cut to North with 1' fill to South.
- F. Gates and Cattle Guards: None
- G. Off lease right of way: None required.

3. LOCATION OF EXISTING WELLS:

Existing wells in the immediate area are shown on the Vicinity Map, Exhibit "B".

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. OGX Resources, LLC. has no production facility on this lease at this time.
- B. If the well proves to be commercial, the necessary production facilities, gas separation-process equipment and tank battery, if required, will be installed on the drilling pad.

5. LOCATION AND TYPE OF WATER SUPPLY:

It is planned to drill the proposed well with fresh water that will be obtained from private or commercial sources and will be transported over the existing and proposed access roads.

6. SOURCE OF CONSTRUCTION MATERIAL:

Caliche for surfacing the proposed access road and well site pad will be obtained from the location, if available, or from an approved Federal pit. No surface materials will be disturbed except those necessary for actual grading and leveling of the drill site and access road.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the drilling pits until the pits are dry.
- C. All pits will be fenced with normal fencing materials to prevent livestock from entering the area.
- D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or a separate disposal application will be submitted to the BLM for approval.
- E. Oil Produced during tests will be stored in test tanks.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- G. All trash and debris will be removed from the well site within 30 days after finishing drilling and/or completion operations.

8. ANCILLARY FACILITIES:

None required.

9. WELL SITE LAYOUT:

- A. Exhibit "D" shows the relative location and dimensions of the well pad, reserve pits, and major rig components. The pad and pit area has been staked and flagged 600' x 600'.
- B. Mat Size: 225' x 300', plus 150' x 150' reserve pit on the north.
- C. Cut & Fill: 1' cut to North with 1' fill to South
- D. The surface will be topped with compacted caliche and the reserve pits will be plastic lined.

10. PLANS FOR RESTORATION OF THE SURFACE:

- A. After completion of drilling and/or completion operations, all equipment and other material not needed for operations will be removed. The well site will be cleaned of trash leaving the site aesthetically pleasing to the extent possible.
- B. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled and leveled as soon as they are dry enough to be worked.

11. OTHER INFORMATION:

- A. Surface Ownership – Pardue Limited Company**
- B. No significant archaeological resources were found in the area of the planned access road or of the proposed well site.**

C. Oil & Gas Lease:
NM 92757

**Township 24 South, Range 28 East
S/2 of Section 17**

D. RECORD LESSEE:

OGX Resources, LLC	50%
EOG Resources, Inc.	50%

E. BOND COVERAGE:

\$25,000 Statewide Oil & Gas Surety Bond
BLM Bond #: NMB 000244

12. OPERATOR'S REPRESENTATIVE:

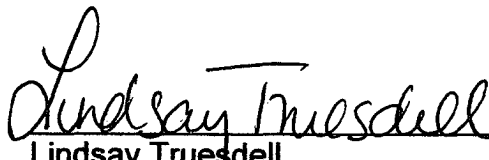
The field representative for assuring compliance with the approved use and operations plan is as follows:

R. K. Ford & Associates
415 West Wall, Suite 1700
Midland, Texas 79701
432-682-0440 (Office)
432-682-0441 (Fax)
432-570-7216 (Home)
432-559-2222 (Cell)
Randell@rkford.com (E-mail)

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 exist; 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 Cabal Energy Corporation and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved.

April 10, 2006


Lindsay Truesdell
Consultant

Conditions of Approval Cave and Karst

Cave/Karst Surface Mitigation

The following stipulations will be applied to minimize impacts during construction, drilling and production.

Berming:

Any tank batteries will be constructed and bermed large enough to contain any spills that may occur.

Bermed areas will be lined with rip-stop padding to prevent tears or punctures in liners and lined with a permanent 20 mil plastic liner.

Cave/Karst Subsurface Mitigation

The following stipulations will be applied to protect cave/karst and ground water concerns:

Rotary Drilling with Fresh Water:

Rotary drilling techniques in cave or karst areas will include the use of fresh water as a circulating medium in zones where caves or karst features are expected. See geologist report for depth.

Casing:

All casing will meet or exceed National Association of Corrosion Engineers specifications pertaining to the geology of the location and be run to American Petroleum Institute and BLM standards.

Cementing:

All casing strings will be cemented to the surface.

Lost Circulation:

ALL lost circulation zones from the surface to the base of the cave occurrence zone will be logged and reported.

Regardless of the type of drilling machinery used, if a bit drops of four feet or more and circulation losses greater than 75 percent occur simultaneously while drilling in any cave-bearing zone, drilling operations will immediately stop and the BLM will be notified by the operator. The BLM will assess the consequences of the situation and work with operator on corrective actions to resolve the problem.

Delayed Blasting:

Any blasting will be a phased and time delayed.

Abandonment Cementing:

Upon well abandonment the well bore will be cemented completely from 100 feet below the bottom of the cave bearing zone to the surface.

Pressure Tests:

Annual pressure tests will be performed by the Operator on all casing annuli. If the test results indicated a casing failure, remedial actions approved by the BLM will be undertaken to correct the problem.

Differential Shut-off Systems:

A leak detection system and differential shut off systems will be installed for pipelines and tanks used in production or drilling.

Record Keeping:

The Operator will track customary drilling activities, including the rate of penetration, pump pressure, weight on bit, bit drops, percent of mud returns, and presence of absence of cuttings returning to the surface. As part of customary record keeping, each detectable void or sudden increase in the rate of penetration not attributable to a change in the formation type should be documented and evaluated as it is encountered.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: OGX Resources LLC
Well Name & No. Black Eagle Federal #1
Location: 840 660' FSL, 1700' FWL, Section 17, T. 24 S., R. 28 E., Eddy County, New Mexico
Lease: NM-110829
As attached SW dated 12/4/11

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 7 inch 4-1/2 inch liner

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.

II. CASING:

1. The 13-3/8 inch surface casing shall be set at approximately 400 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 first intermediate casing is to be circulated to the surface.

3. The minimum required fill of cement behind the 7 inch production casing is to reach at least 500 feet above the top of the uppermost hydrocarbon productive interval.

3. The minimum required fill of cement behind the 4-1/2 inch production liner is to reach the top of the liner.

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.

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

NOTE: Operator plans to use a 3M annular preventer on the 13-3/8" surface casing while drilling the intermediate hole.

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.

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