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Form 3160-3
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

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

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No. NMLC069140A
6. If Indian, Allotee or Tribe Name
7. If Unit or CA Agreement, Name and No.

1a. Type of work: ☑ DRILL ☐ REENTER

1b. Type of Well: ☐ Oil Well ☑ Gas Well ☐ Other ☐ Single Zone ☐ Multiple Zone

8. Lease Name and Well No. BIG EDDY UNIT #156 1776

2. Name of Operator BEPCO, L.P. 1801

9. API Well No. 30-015-35269

3a. Address P.O. BOX 2760 MIDLAND, TX 79702

3b. Phone No. (include area code) (432)683-2277

10. Field and Pool, or Exploratory Indian Flats; Morrow, SW

4. Location of Well (Report location clearly and in accordance with any State requirements.*)
At surface NWNW, 660' FNL, 860' FWL, Lat N 32.412639 deg, Long W 104.064389
At proposed prod. zone Same

CARLSBAD CONTROLLED WATER BASIN

11. Sec., T. R. M. or Blk. and Survey or Area Sec 11, T22S, R28E Mer NMP SME:BLM

14. Distance in miles and direction from nearest town or post office* 10 MILES EASTOF CARLSBAD, NM

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)	16. No. of acres in lease	17. Spacing Unit dedicated to this well
660'	2029.25	320
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.	**19. Proposed Depth**	**20. BLM/BIA Bond No. on file**
9896'	13,000	NM 2204
21. Elevations (Show whether DF, KDB, RT, GL, etc.)	**22. Approximate date work will start***	**23. Estimated duration**
3159' GL	12/01/2006	45 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:

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	Name (Printed/Typed)	Date
Annette Childers	ANNETTE CHILDERS	9-18-06

Title: Administrative Assistant

Approved by (Signature)	Name (Printed/Typed)	Date
/s/ James Stovall	/s/ James Stovall	DEC 01 2006

Title	Office
ACTING FIELD MANAGER	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)

SEE ATTACHED FOR CONDITIONS OF APPROVAL

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

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

Surface casing to be set into the Rustler below all fresh water sands.
Production casing will be cemented using Halliburton Class "H" plus additives with TOC 500' into intermediate casing.
Drilling procedure, BOP diagram, anticipated tops and surface plans attached.

This well is located outside the Secretary's Potash area and outside the R-111 Potash area. There are no potash leases within 1 mile of the location.

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 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 October 12, 2005

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
	79100	Indian Flats; Morrow, SW

Property Code	Property Name	Well Number
001776	BIG EDDY UNIT	156

OGRID No.	Operator Name	Elevation
001801	BEPCO, L.P.	3159'

Surface Location

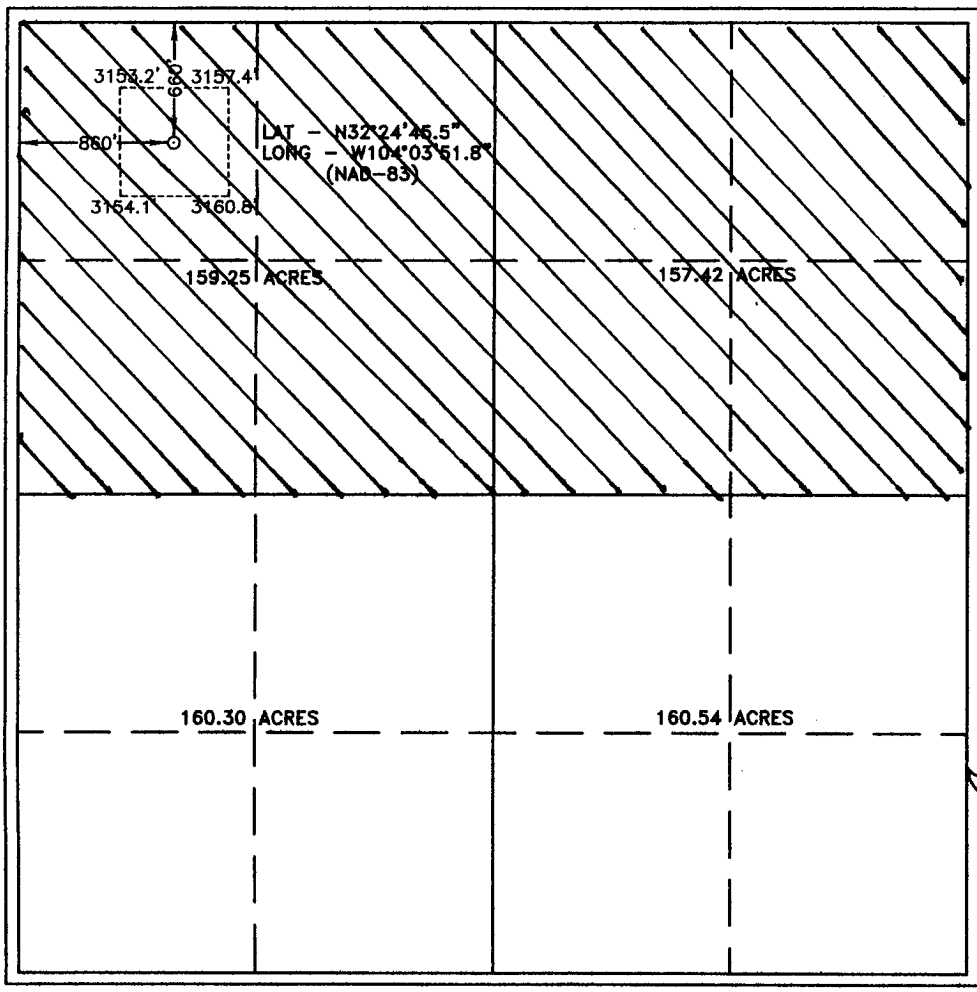
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
D	11	22 S	28 E		660	NORTH	860	WEST	EDDY

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		

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 — Date 9/18/06

Gary E. Gerhard
Printed Name

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.

JULY 05, 2006
Date Surveyed

Signature & Seal of Professional Surveyor

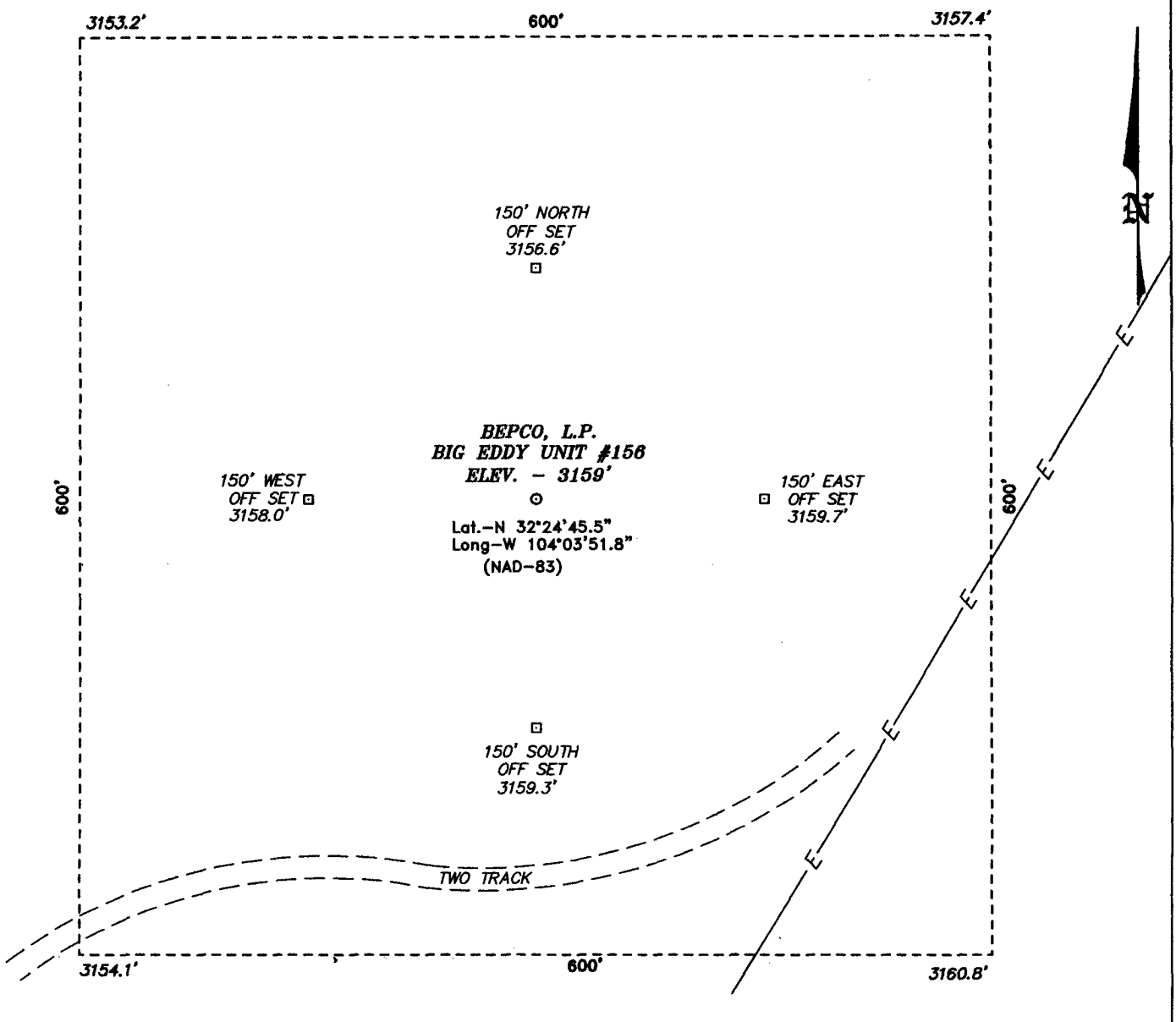
NEW MEXICO 7977 REGISTERED PROFESSIONAL SURVEYOR

W.O. No. 6540

Certificate No. Gary L. Jones 7977

BASIN SURVEYS

SECTION 11, TOWNSHIP 22 SOUTH, RANGE 28 EAST, N.M.P.M.,
EDDY COUNTY, **NEW MEXICO.**



DIRECTIONS TO LOCATION:

FROM THE JUNCTION OF STATE HWY 62-180 AND CO. RD 243 (MAGNUM), PROCEED SOUTHWEST 1.3 MILE TO LEASE ROAD AT DUKE STATION, ON LEASE ROAD GO SOUTH 4.2 MILE, THENCE SOUTHEAST 0.3 MILE; THENCE 1.3 MILE SOUTH AT IMC BOOSTER; THENCE 0.8 MILE EAST; THENCE APPROX 0.1 MILE THROUGH FENCE; TEHNCE 0.1 MILE NORTHEAST ON LEASE ROAD TO TRAIL ROAD; THENCE 0.6 MILE NORTHEAST ON TWO TRACK TO PROPOSED LEASE ROAD.

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

BEPCO, L.P.

REF: BIG EDDY UNIT No. 156 / Well Pad Topo

THE BIG EDDY UNIT No. 156 LOCATED 660' FROM THE NORTH LINE AND 860' FROM THE WEST LINE OF SECTION 11, TOWNSHIP 22 SOUTH, RANGE 28 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO.

W.O. Number: 6590	Drawn By: J. M. SMALL		
Date: 07-10-2006	Disk: JMS 6590W	Survey Date: 07-06-2006	Sheet 1 of 1 Sheets

EIGHT POINT DRILLING PROGRAM
BEPCO, L.P.

NAME OF WELL: BIG EDDY UNIT #156

LEGAL DESCRIPTION - SURFACE: 660' FNL & 860' FWL, Section 11, T22S, R28E, Eddy County, New Mexico.

POINT 1: ESTIMATED FORMATION TOPS

(See No. 2 Below)

POINT 2: WATER, OIL, GAS AND/OR MINERAL BEARING FORMATIONS

Anticipated Formation Tops: KB 3179' (est)
GL 3159'

FORMATION	ESTIMATED TOP FROM KB	ESTIMATED SUBSEA TOP	BEARING
T/Salt	531'	+ 2,648'	
B/Salt	2,361'	+ 818'	
T/Lamar Lime	2,669'	+ 510'	Barren
T/Bell Canyon	2,709'	+ 470'	Oil/Gas
T/Old Indian Draw Sand	3,529'	- 350'	Barren
T/Bone Spring Lime	6,104'	- 2,925'	
T/Wolfcamp	9,599'	- 6,420'	Oil/Gas
T/Strawn	10,869'	- 7,690'	Oil/Gas
T/Atoka	11,219'	- 8,040'	Oil/Gas
T/UPR Morrow	11,769'	- 8,590'	Oil/Gas
T/Middle Morrow	12,149'	- 8,970'	Oil/Gas
T/Lower Morrow	12,474'	- 9,295'	Oil/Gas
TD	13,000'	- 9,821'	

POINT 3: CASING PROGRAM

TYPE	Hole Size	INTERVALS	PURPOSE	CONDITION
20"	24"	0' - 40'	Conductor	Contractor Discretion
13-3/8", 48#, H40, STC	17-1/2"	0' - 521'	Surface	New
9-5/8", 40#, K-55, LTC	12-1/4"	0' - 6,112'	Intermediate	New
5-1/2", 17#, HCP110, LTC	8-3/4"	0' - 13,000'	Production Casing	New

POINT 4: PRESSURE CONTROL EQUIPMENT (SEE ATTACHED DIAGRAM)

A BOP equivalent to Diagram 1 will be rippled upon the surface casing head and the BOP stack, choke, kill lines, Kelly cock, inside BOP etc will be hydrostatically tested to 70% of interval yield pressure of casing or 1000 psig whichever is less with rig pump.

A BOP equivalent to Diagram 1 will also be nippled up on the intermediate casing. The BOP stack, choke, kill lines, kelly cocks, inside BOP, etc. will be hydro-tested to 5,000 psi by independent tester. The annular will be tested to 2500 psi. In addition to the rated working pressure test, a low-pressure (250 psi) test will be required. These tests will be performed:

a) Upon installation
b) After any component changes
c) Twenty-one days after a previous test
d) As required by well conditions

A function test to insure that the preventers are operating correctly will be performed on each trip. See the attached Diagram 1 for the minimum criteria for the choke manifold.

POINT 5: MUD PROGRAM

DEPTH	MUD TYPE	WEIGHT	FV	PV	YP	FL	Ph
0' – 531'	FW	8.5 - 9.2	45-35	NC	NC	NC	9.5
531' – 6,112'	BW	8.5 – 9.2	28-30	NC	NC	NC	9.5
6,112' – 9,000'	FW	8.6 – 8.9	28-30	4	2	NC	9.5
9,000' – 11,200'	CBW	8.9 – 11.5	28-30	6	4	<20	9.5
11,200' – TD	CBW/Polymer	9.0 – 12.1	32-55	12-20	12-22	10-15	9.5-10.0

POINT 6: TECHNICAL STAGES OF OPERATION

A) TESTING

Drill stem tests may be performed on significant shows in zones of interest, but none are anticipated at this time.

B) LOGGING

This well will be logged in two intervals.

Run #1 @ 6112':
GR-CNL-LDT-LLD-CAL run from 6,112' to base of surface casing and GR-CNL from base of surface casing to surface.

Run #2 @ 13,000':
GR-CNL-LDT-LLD-CAL run from TD to base of intermediate casing.

C) CORING

No cores are anticipated.

D) CEMENT

INTERVAL	AMOUNT SX	FT OF FILL	TYPE	GALS/SX	PPG	FT^3/SX
SURFACE						
Lead 0' – 220' (100% excess)	205	220	Howco Light Premium Plus	10.14	12.80	1.87
Tail 220'-531' (100% Excess)	310	300	Premium Plus	6.37	14.80	1.35

INTERMEDIATE INTERVAL	AMOUNT SXS	FT OF FILL	TYPE	GALS/SX	PPG	FT^3/SX
Lead 0' – 5612' (100% Excess)	1725	5612	Interfill H	16.43	11.50	2.76
Tail 5612' – 6112' (100% Excess)	400	500	Premium Cement	4.72	16.0	1.12

PRODUCTION (Two stage w/DV tool @ 8000' and circulate cement to 3500')

INTERVAL	AMOUNT SXS	FILL	TYPE	GALS/SX	PPG	FT^3/SX
1st Stage LEAD 8000'-12,000' (50% excess)	660	4000	Interfill H + ¼ pps Flocele + 5 lb pps Gilsonite+0.5% Halad R-9 (Fluid Loss)	13.61	11.90	2.46
TAIL 12,000'-13,000' (50% excess)	250	1000	Super H + 0.5% Halad 344 + 0.4% CFR3 + 5 pps Gilsonite + 1 pps Salt + 0.2% HRT	7.73	13.20	1.60
2nd Stage LEAD 3500'-7,000' (50% excess)	550	3500	Interfill H+1/4 pps Flocele+ 0.5% Halad R-9	14.10	11.90	2.46
TAIL 7,000'-8,000' (50% excess)	325	1000	Premium Cement + 0.5% HR-5 Retarder	5.20	15.6	1.18

E) DIRECTIONAL DRILLING

No directional services anticipated. A straight hole will be drilled to 13,000' TD.

POINT 7: ANTICIPATED RESERVOIR CONDITIONS

Normal pressures are anticipated throughout the Delaware, Bone Spring & Wolfcamp sections. The Strawn expected BHP is 5651 (max) or an equivalent mud weight of 10.0 ppg. The Atoka is expected to be over-pressured - mud wt ± 12 ppg. However if the Atoka is tight then well control will not be a problem. The Morrow will be normally pressured. Due to the tight nature of the reservoir rock (high pressure, low volume), the well will be drilled under balanced utilizing a rotating head. The expected BHT at TD is 200°F. No H_2S is anticipated.

POINT 8: OTHER PERTINENT INFORMATION

A) Auxiliary Equipment

Upper and lower kelly cocks. Full opening stab in valve on the rig floor.

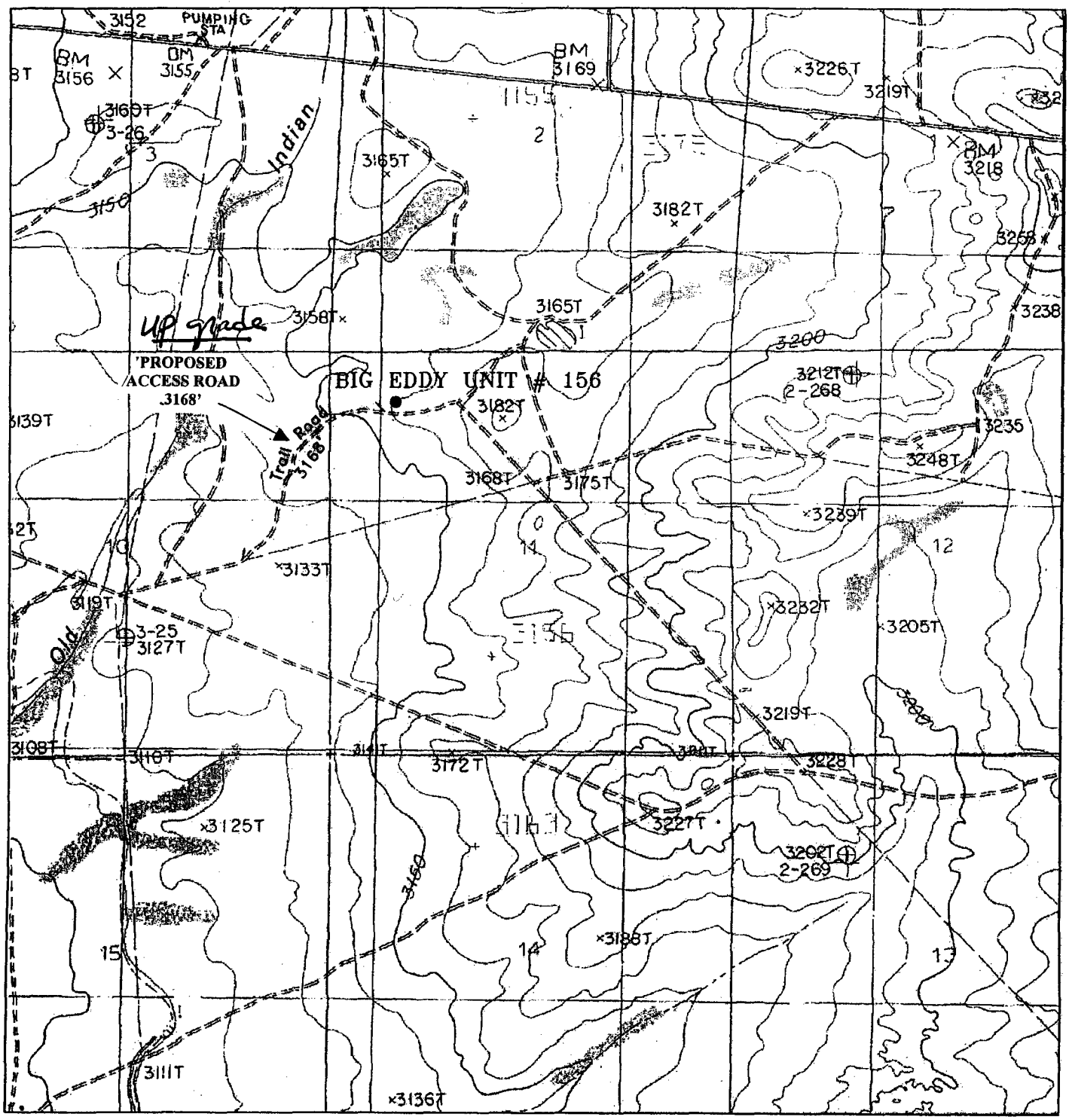
B) Anticipated Starting Date

Upon approval

45 days drilling operations

20 days completion operations

GEG/mac



SECTION 11, TOWNSHIP 22 SOUTH, RANGE 28 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.

EXHIBIT "B"

BEPCO, L.P.

Adobe Drilling Rig No. Iron Horse

432-552-5553

KB 15.3'

Trailer

Diesel Tank

Bottom D. House

Light Plant House

Water Tank

Water Tank

V-Door South

Pits East

F/ Center Hole South 150'

F/ Center Hole To East 100' W/ 40' Stinger

Sub

F/ Center Hole West 150'

From Center Hole To Rev. Pit 55'

Pit

Pit

Pit

Pit

Mud

350'

15'

100'

RESERVE PIT

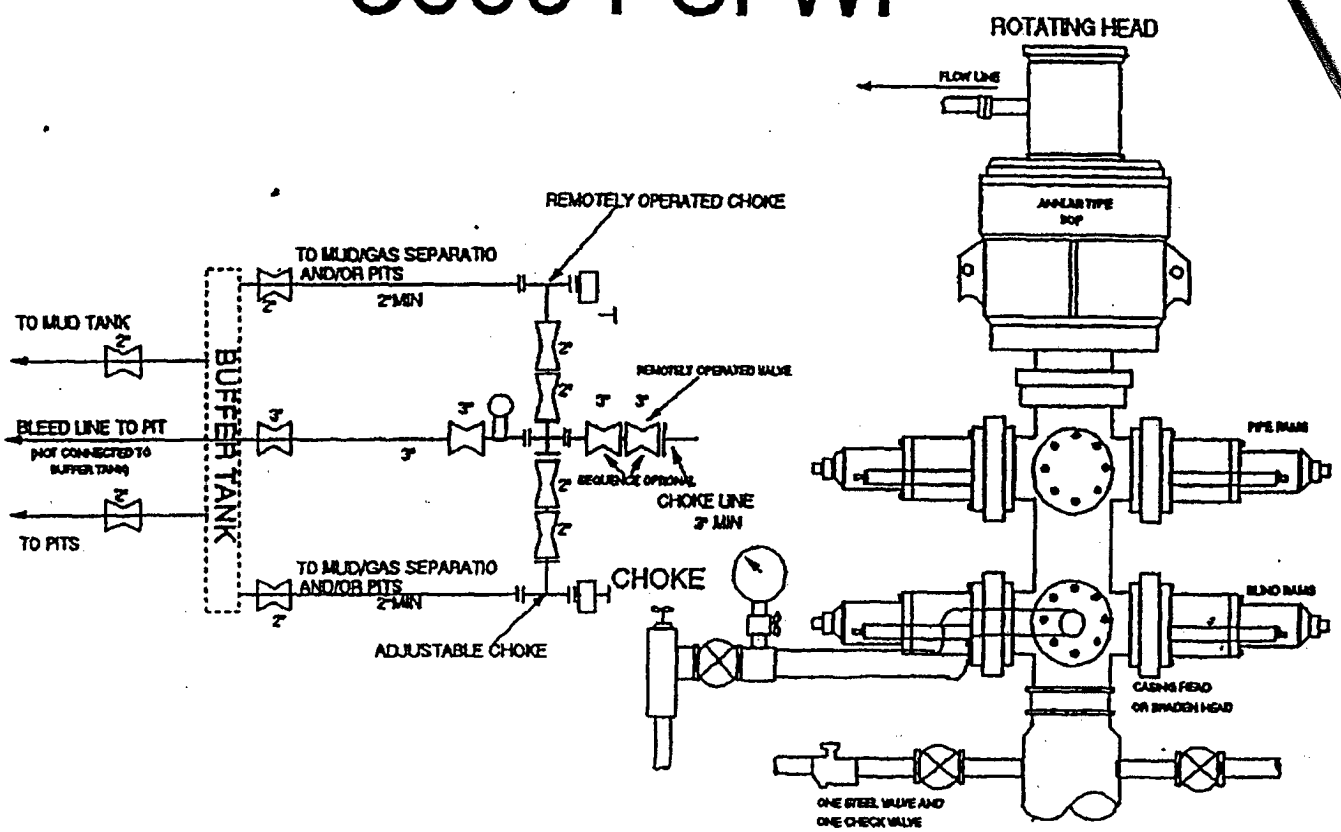
135'

N

300'

EXHIBIT "D"

5000 PSI WP



THE FOLLOWING CONSTITUTE MINIMUM BLOWOUT PREVENTER REQUIREMENTS

A. One double gate blowout preventer with lower rams for pipe and upper rams blind, all hydraulically controlled.

B. Opening on preventers between rams to be flanged, studded or clamped and at least two inches in diameter.

C. All connections from operating manifold to preventers to be all steel hose or tube a minimum of one inch in diameter.

D. The available closing pressure shall be at least 15% in excess of that required with sufficient volume to operate (close, open, and re-close) the preventers.

E. All connections to and from preventers to have a pressure rating equivalent to that of the BOP's.

F. Manual controls to be installed before drilling cement plug.

G. Valve to control flow through drill pipe to be located on rig floor.

H. All chokes will be adjustable. Choke spool may be used between rams.

DIAGRAM 1

MULTI-POINT SURFACE USE PLAN

NAME OF WELL: BIG EDDY UNIT #156

LEGAL DESCRIPTION – SURFACE: 660' FNL & 860' FWL, Section 11, T22S-R28E, Eddy County, NM

POINT 1: EXISTING ROADS

A) Proposed Well Site Location

See Exhibit "B".

B) Existing Roads:

From the junction of State Hwy. 62-180 and Co. Rd. 243 (Magnum), proceed southwest 1.3 mile to lease road at Duke station, on lease road go south 4.2 mile, thence southeast 0.3 mile; thence southeast 0.3 mile; thence 1.3 mile; thence 1.3 mile south at IMC Booster; thence 0.8 mile east; thence approx. 0.1 mile through fence; thence 0.1 mile northeast on lease road to trail road; thence 0.6 mile northeast on two track to proposed lease road to BEU #156.

C) Existing Road Maintenance or Improve Plan:

See Exhibit "B"

POINT 2: NEW PLANNED ACCESS ROUTE

A) Route Location:

Approximately 100 ' of new road is required. See Exhibit "B".

B) Width

12' Wide.

C) Maximum Grade

Not Applicable.

D) Turnouts

As required by BLM stipulations

E) Culverts, Cattle Guards, and Surfacing Equipment

None

POINT 3: LOCATION OF EXISTING WELLS

Exhibit "A" indicates existing wells within the surrounding area.

POINT 4: LOCATION OF EXSITING OR PROPOSED FACILITIES

A) Existing facilities within one mile owned or controlled by lessee/operator are located in Sec 10 T22S, R28E (gas well) or oil facilities in Sec 3 or Sec 10 T22S, R28E.:

B) New Facilities in the Event of Production:

New production facilities will be installed at the new location. A transmission line will be laid to Enterprise Gas Systems approximately approx 2 miles southwest of proposed well.

C) Rehabilitation of Disturbed Areas Unnecessary for Production:

Following the construction of production facilities, those access areas required for continued production will be graded to provide drainage and minimize erosion. The areas necessary for use will be graded to blend in the surrounding topography – See Point 10.

POINT 5: LOCATION AND TYPE OF WATER SUPPLY

A) Location and Type of Water Supply

Fresh water and brine will be hauled from the City of Carlsbad. Brine water will be hauled from Champion Brine Water Station, 3.5 miles east and 2.5 miles south of Carlsbad.

B) Water Transportation System

Water hauling to the location will be over the existing and proposed roads.

POINT 6: SOURCE OF CONSTRUCTION MATERIALS

A) Materials

On-site caliche will be used f possible.

B) Land Ownership

Federally Owned.

C) Materials Foreign to the Site

If caliche foreign to this site is required it will be taken from pit in Sec 18, T22S, R28E.

D) Access Roads

Upgrade of approximately 3168' of two track road is required. See Exhibit "B".

POINT 7: METHODS FOR HANDLING WASTE MATERIAL

A) Cuttings

Cuttings will be contained in the reserve pit.

B) Drilling Fluids

Drilling fluids will be contained in the reserve pit.

C) Produced Fluids

Water Production will be contained in the reserve pit.

Hydrocarbon fluid or other fluids that may be produced during testing will be retained in the test tanks. Prior to cleanup operations, any hydrocarbon material in the reserve pit will be removed by skimming or burning as the situation would dictate.

D) Sewage

Current laws and regulations pertaining to the disposal of human waste will be complied with.

E) Garbage

Portable containers will be utilized for garbage disposal during the drilling of this well.

F) Cleanup of Well Site

Upon release of the drilling rig, the surface of the drilling pad will be graded to accommodate a completion rig if testing indicates potential productive zones. In any case, the "mouse" hole and the "rat" hole will be covered. The reserve pit will be fenced and the fence maintained until the pit is backfilled. Reasonable cleanup will be performed prior to the final restoration of the site.

POINT 8: ANCILLARY FACILITIES

None Required.

POINT 9: WELL SITE LAYOUT

A) Rig Orientation and Layout

Exhibit "D" show the dimensions of the well pad and reserve pits and the location of major rig components. Only minor leveling of the well site will be required. No significant cuts or fills will be necessary.

B) Locations of Pits and Access Road

See Exhibits "B" and "C" & "D"

C) Lining of the Pits

The reserve pit will be lined with plastic.

POINT 10: PLANS FOR RESTORATION OF THE SERVICE

A) Reserve Pit Cleanup

A pit will be fenced at the time of rig release and shall be maintained until the pit is backfilled. Previous to backfill operations, any hydrocarbon material on the pit surface shall be removed. The fluids and solids contained in the pit shall be backfilled with soil excavated from the site and soil adjacent to the reserve pit. The restored surface of the pit shall be contoured to prevent impoundment of surface water flow. Water – bars will be constructed as needed to prevent excessive erosion. Topsoil, as available, shall be placed over the restored surface in a uniform layer. The area will be seeded according to the BLM stipulations during the appropriate season following restoration.

B) Restoration Plans – Production Developed

The reserve pit will be backfilled and restored as described above under Item A. In addition, those areas not required for production will be graded to blend with the surrounding topography. Topsoil, as available, will be placed upon those areas and seeded. The portion of the site required for production will be graded to minimize erosion and provide access during inclement conditions. Following depletion and abandonment of the site, restoration procedures will be those that follow under Item C.

C) Restoration Plans – No Production Developed

The reserve pit will be restored as described above. With no production developed, the entire surface disturbed by construction of the well site will be restored. The site will be contoured to blend with the surrounding topography and provide drainage of surface water. The topsoil, as available, shall be replaced in a uniform layer and seeded according to the BLM stipulations.

D) Rehabilitation Timetable

Upon completion of drilling operations, the initial cleanup of the site will be performed as soon as weather and site conditions allow economic execution of the work.

POINT 11: OTHER INFORMATION

A) Terrain

Relatively Flat

B) Soil

Caliche and sand.

C) Vegetation

Sparse, primarily grasses and mesquite with very little grass.

D) Surface Use

Primarily grazing.

E) Surface Water

There are no ponds, lakes, streams, or rivers within several miles of the wellsite.

F) Water Wells

There is one water well within 1 mile of location. (NW NW NW Sec 2 T22S, R28E).
There are two other water wells within 2 miles (See Exhibit A).

G) Residences and Buildings

None in the immediate vicinity.

H) Historical Sites

None observed.

I) Archeological Resources

An archeological survey will be obtained for this area. The survey area will be a 600' x 600' square with its center on the wellhead stake. Before any construction begins, a full and complete archeological survey will be submitted to the BLM. Any location or construction conflicts will be resolved before construction begins.

J) Surface Ownership

The well site and access road are both on federally owned land.

K) Well signs will be posted at the drilling site.

L) Open Pits

All pits containing liquid or mud will be fenced and bird-netted.

POINT 12: OPERATOR'S FIELD REPRESENTATIVE

(Field personnel responsible for compliance with development plan for surface use).

DRILLING
William R. Dannels
Box 2760
Midland, Texas 79702
(432) 683-2277

PRODUCTION
Mike Waygood
3104 East Green Street
Carlsbad, New Mexico 88220
(505) 887-7329

Michael Lyon
Box 2760
Midland, Texas 79702
(432) 683-2277

POINT 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 the plan are, to the best of my knowledge, true and correct; and that the work associated with operations proposed herein will be performed by BEPCO, L.P. and it's contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

9/18/06
Date

Gary E. Gerhard

GEG/mac

SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name: BEPCO, L.P. Well Name & #: Big Eddy Unit # 156
Location 660' F N L & 860' F W L; Sec. 11, T. 22 S., R. 28 E.
Lease #: NMLC-069140A County: Eddy State: New Mexico

The Special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 AND 3165.4.

This permit is valid for a period of one year from the date of approval or until lease expiration or termination whichever is shorter.

I. SPECIAL ENVIRONMENT REQUIREMENTS

( ) Lesser Prairie Chicken (stips attached)
( ) San Simon Swale (stips attached)
( ) Flood plain (stips attached)
( ) Other

II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

(X) The BLM will monitor construction of this drill site. Notify the (X) Carlsbad Field Office at (505) 234-5972 ( ) Hobbs Office (505) 393-3612, at least 3 working days prior to commencing construction.

(X) Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche upon completion of well and it is determined to be a producer.

( ) All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately _____inches in depth. Approximately _____cubic yards of topsoil material will be stockpiled for reclamation.

(X) Other. **Pits East V-Door South**

III. WELL COMPLETION REQUIREMENTS

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

(x) Surface Restoration: If the well is a producer, the reserve pit(s) will be backfilled when dry, and cut-and-fill slopes will be reduced to a slope of 3:1 or less. All areas of the pad not necessary for production must be re-contoured to resemble the original contours of the surrounding terrain, and topsoil must be re-distributed and re-seeded with a drill equipped with a depth indicator (set at depth of ½ inch) with the following seed mixture, in pounds of Pure Live Seed (PLS), per acre. If broadcasting, the seeding rate must be doubled.

(X) A. Seed Mixture 1 (Loamy Sites)
Side Oats Grama (*Bouteloua curtipendula*) 5.0
Sand Dropseed (*Sporobolus cryptandrus*) 1.0
Plains lovegrass (*Eragrostis intermedia*) 0.5

( ) B. Seed Mixture 2 (Sandy Sites)
Sand Dropseed (*Sporobolus crptandrus)* 1.0
Sand Lovegrass (*Eragostis trichodes*) 1.0
Plains Bristlegrass (*Setaria magrostachya*) 2.0

( ) C. Seed Mixture 3 (Shallow Sites)
Side oats Grama (*Bouteloua curtipendula)* 5.0
Green Spangletop (*Leptochloa dubia*) 2.0
Plains Bristlegrass (*Setaria magrostachya*) 1.0

( ) D. Seed Mixture 4 (Gypsum Sites)
Alkali Sacaton (*Sporobolus airoides*) 1.0
Four-Wing Saltbush (*Atriplex canescens*) 5.0

( ) OTHER SEE ATTACHED SEED MIXTURE

Seeding should be done either late in the fall (September 15 - November 15, before freeze up, or early as possible the following spring to take advantage of available ground moisture.

( ) Other

RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit shall be constructed entirely in cut material and lined with 6-mil plastic.
Mineral material extracted from within the boundary of the APD during construction of the well pad and reserve pits and be used for the construction of this well pad and its immediate access road only, as long as that portion of the access road it is use on remains on-lease. Removal of any additional material from this location for construction or improvement of other well pads and other access or lease roads must first be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of the pit contents.
The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

OPTIONAL PIT CONSTRUCTION STANDARDS

The reserve pit may be constructed in predominantly fill material if:

(1) Lined as specified above and

(2) A temporary or emergency pit may be constructed immediately adjacent to the reserve pit as long as the pit remains within the APD boundary. Mineral material removed from this pit may be used for the construction of this well pad only and its immediate access road, as long as that portion of the access road the material is used on remains on-lease. Removal of any material from the APD boundary for use on other well locations or roads must first be purchased from BLM.

Reclamation of the reserve pit consists of bulldozing all reserve pit contents and contaminants into the borrow pit and covering with a minimum of 3 feet of clean soil material. The entire area must be re-contoured, all trash removed, and reseeded as specified in this permit.

CULTURAL

Whether or not an archaeological survey has been completed and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously unidentified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to process by BLM.

TRASH PIT STIPS

All trash, junk, and other waste material shall be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not permitted.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: BEPCO, L.P.
Well Name & No. Big Eddy Unit 156
Location: 0660FNL, 0860FWL Section 11, T-22-S, R-28-E
Lease: NMLC-069140A

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) 234-5972 or (505) 361-2822 - for wells in Eddy County, in sufficient time for a representative to witness:

A. Spudding

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

5. 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.

6. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. The 13-3/8 inch surface casing shall be set **a mimimum of 25 feet into the Rustler Anhydrite approximately 521 feet**, below usable water 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.

Possible lost circulation in the Delaware and Bone Spring formations. Possible karst.

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

3. The minimum required fill of cement behind the 5-1/2 inch production casing is **cement extended 500 feet into the intermediate casing.**

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) required for drilling the surface casing shall be **1000** psi. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling the intermediate casing shall be **5000** psi. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the **9-5/8** inch casing shall be **10000** 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.
- BOPE must be tested **500'** prior to drilling into the **Wolfcamp** Formation by an independent service company.

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:

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