

Form 3160-3
(April 2004)

8104
1339

R-E-Entry

K-06-75

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

5. Lease Serial No.
NM 97871
6. If Indian, Allottee 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.
Hay "B" Federal #1 36070

2. Name of Operator
Circle Diamond Drilling, LLC 243468

9. API Well No.
30-015-23935

3a. Address 528 N. Canal #14
Carlsbad, NM 88220

3b. Phone No. (include area code)
505 706-0269

10. Field and Pool, or Exploratory
Wildcat, Delaware

4. Location of Well (Report location clearly and in accordance with any State requirements.)
At surface 1980' FSL & 1980' FWL
At proposed prod. zone 1980' FSL & 330' FWL

Subject to
Lika Approved
By State

11. Sec., T. R. M. or Blk. and Survey or Area
Sec. 9, T-26S, R-27E

14. Distance in miles and direction from nearest town or post office*
14 miles SW Malaga, NM

12. County or Parish
Eddy
13. State
NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 330
16. No. of acres in lease 640

17. Spacing Unit dedicated to this well
80 acres

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. NA
19. Proposed Depth 6,000' MD

20. BLM/BIA Bond No. on file
Personal NMB000414

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
3274.3 GL
22. Approximate date work will start*
10/15/2006

23. Estimated duration
30 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 *John Craig Huber* Name (Printed/Typed) John Craig Huber Date 08/28/2006

Title: Managing Member

Approved by (Signature) /s/ James Stovall Name (Printed/Typed) Date SEP 29 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)



APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

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

**N MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION PLAT**

Form C-102
Supersedes C-128
Effective 1-1-85

All distances must be from the outer boundaries of the Section

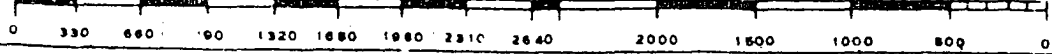
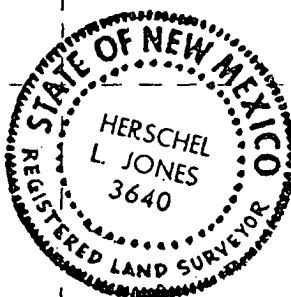
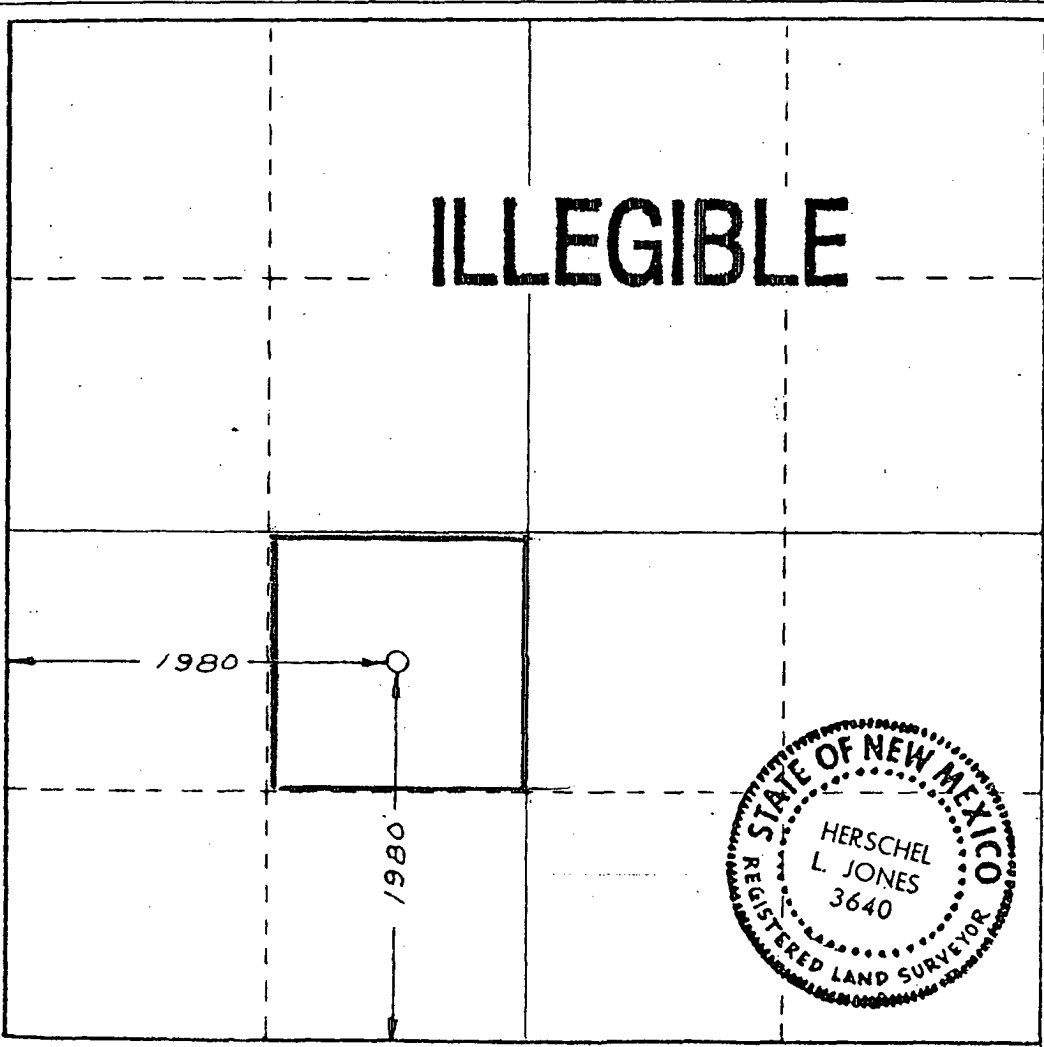
Operator QUANAH PETROLEUM, INC. CORPORATION		Lease "B" Hay Federal		Well No. 1
Init Letter "K"	Section 9	Township 26 South	Range 27 East	County Eddy
Actual Footage Location of Well:				
1980 feet from the South line and		1980 feet from the West line		
Ground Level Elev. 3274.3	Producing Formation	Pool <i>Wulbeat</i>	Dedicated Acreage: 40	

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

Yes No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

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

Walter P. Oliver
 Name
Walter P. Oliver
 Position
Vice President Operations
 Company
Quanah Petroleum, Inc.
 Date
September 9, 1981

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.

Date Surveyed
August 25, 1981
 Registered Professional Engineer
 and/or Land Surveyor
Herschel L. Jones
 Certificate No
3640

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 & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 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 30-D15-23935		Pool Code	Pool Name Wildcat Delaware	
Property Code	Property Name HAY "B" FEDERAL		Well Number 1	
OGRID No. 243468	Operator Name CIRCLE DIAMOND DRILLING, LLC		Elevation 3274.3 GL	

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
K	9	265	27E		1980	South	1980	West	Eddy

¹¹ 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
L	9	265	27E		1980	South	330	West	Eddy

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
80			

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.

16				17 OPERATOR CERTIFICATION <i>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 or has a right to drill this well at this 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.</i>	
				Signature: John C. Huber Date: 8-16-06 Printed Name: John C. Huber	
BHL		SL		18 SURVEYOR CERTIFICATION <i>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.</i>	
				Date of Survey	
				Signature and Seal of Professional Surveyor:	
				Certificate Number	

CIRCLE DIAMOND DRILLING, LLC
DRILLING AND OPERATIONS PROGRAM

Hay "B" Federal #1
SL: 1980' FSL & 1980' FWL
BHL: 1980' FSL & 330' FWL
Section 9, T26S, R27E
Eddy County, New Mexico

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Marbob Energy Corporation submits the following ten items of pertinent information in accordance with BLM requirements.

1. The geological surface formation is Permian (rustler).
2. The tops of geologic markers are as follows:

Bell Canyon	2168'			
Cherry Canyon				
Marker	3126'			
T.D.	6000'	MD		4115' TVD

3. The depths at which anticipated water, oil or gas formations are expected to be encountered:

L/Cherry Canyon 4115' Oil

No other formations are expected to give up oil, gas, or fresh water in measurable quantities. The surface fresh water sands are protected by 13 3/8" casing at 313' and cement back to surface. Any shallower zones above TD which contain commercial quantities of oil and/or gas have cement circulated across them.

4. Existing/Proposed Casing Program:

Hole Size	Interval	OD Casing	Wt	Grade
17 1/2"	0 - 313'	13 3/8"	48# 54.5	H-40 ST&C
12 1/4"	0 - 2413'	8 5/8"	32# 24	J-55 ST&C
7 7/8"	0 - 6840'	5 1/2"	17# 14	J-55 LT&C
4 3/4"	4000 -	3 1/2"	9.2#	J-55 Hydril
Proposed	6000'			

J-55

Proposed Cement Program:

- 13 3/8" Surface Casing: Cemented w/ 250 sx cmt. Circulated to surface.
- 8 5/8" Intermediate Casing: Cemented w/ 1000 sx cmt. Circulated to surface.
- 5 1/2" Production Casing: Cemented w/ 675 sx cmt. Tied back in to 8 5/8" csg.
- 3 1/2" Production Liner: Un-cemented. **WITNESS**

- 5. Pressure Control Equipment: See Exhibit 1.
- 6. Mud Program: The applicable depths and properties of this system are as follows:

Depth	Type	Weight (ppg)	Viscosity (sec)	Waterloss (cc)
4000'-6000'	FW-KCl	8.4-8.9	29-45	NC-10

- 7. Auxiliary Equipment: Kelly Cock; Sub with full opening valve on floor; and drill pipe connections.
- 8. Testing, Logging and Coring Program:
 - No drillstem tests are anticipated.
 - No electric logging program is anticipated.
 - No conventional coring is anticipated.
- 9. No abnormal pressures or temperatures are anticipated.
- 10. Anticipated starting date: October 15, 2006 or as soon as possible after approval.

CIRCLE DIAMOND DRILLING, LLC
MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Hay "B" Federal #1
SL: 1980' FSL & 1980' FWL
BHL: 1980' FSL & 330' FWL
Section 9, T26S, R27E
Eddy County, New Mexico

This plan is submitted with Form 3160-3, Application for Permit to Drill, covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved and the procedures to be followed in rehabilitating the surface after completion of the operations, so that a complete appraisal can be made of the environmental effect associated with the operations.

1. EXISTING ROADS:

Exhibit 2 is a portion of a topo map showing the well and roads in the vicinity of the proposed location. The proposed wellsite and the access route to the location are indicated in red on Exhibit 2.

DIRECTIONS:

Go south of Malaga, NM on U.S. 285 ~12 miles to the intersection of U.S. 285 and White City road. Turn right (west) on White City road and go west 7 miles. Turn left (south) on existing ranch/lease road and go 2000' to existing location.

2. PLANNED ACCESS ROAD:

No new roads will be needed.

- A. The maximum width of the running surface is 10'. BLM may specify any additions or changes during the onsite inspection.
- B. The average grade is less than 1%.
- C. There are no turnouts.
- D. No culverts, cattleguard, gates, low-water crossings, or fence cuts are necessary.
- E. Surfacing material consists of native caliche.
- F. The existing access road is shown in Exhibit 2.

3. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. Circle Diamond Drilling, LLC proposes a collection facility, if well is productive, to be located on existing Hay "B" Federal #1 well pad.

4. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be collected on a 50'X50' lined cutting storage area and hauled to disposal.
- B. Drilling fluids will be hauled to disposal.
- C. Water produced during completion will be hauled to disposal.
- D. All trash and debris will be removed from the wellsite within 30 days after finishing drilling and/or completion operations. All waste material will be contained to prevent scattering by the wind.

5. WELLSITE LAYOUT:

- A. Exhibit 3 shows the relative location and dimensions of the well pad and cuttings storage area.
- B. The cuttings storage area will be lined with high quality plastic sheeting.

6. PLANS FOR RESTORATION:

- A. After finishing drilling and/or completion operations, all equipment and other material not needed for further operations will be removed. The location will be cleaned of all trash and junk to leave the wellsite in as aesthetically pleasing a condition as possible.
- B. All rehabilitation and/or vegetation requirements of the BLM will be complied with and will be accomplished as expeditiously as possible. All pits will be filled level within 90 days after abandonment.

7. SURFACE OWNERSHIP:

The well site and lease are located on federal surface.

8. OTHER INFORMATION:

A. None.

9. OPERATOR'S REPRESENTATIVE:

Through A.P.D. and Drilling Operations is Craig Huber, Managing Member
Circle Diamond Drilling, LLC
528 N. Canal
Carlsbad, NM 88220
Phone (505) 706-0269

10. CERTIFICATION:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drillsite and access route, that I am familiar with the conditions which presently 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 Circle Diamond Drilling, LLC and its 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.

Date

8/28/2006

John Craig Huber
John Craig Huber
Managing Member
Circle Diamond Drilling, LLC

CIRCLE DIAMOND DRILLING, LLC

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

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:

- A. The hazards and characteristics of hydrogen sulfide (H₂S).
- B. The proper use and maintenance of personal protective equipment and life support systems.
- C. The proper use of H₂S detectors, alarms, warning systems, briefing areas, evacuation procedures, and prevailing winds.
- D. The proper techniques for first aid and rescue procedures.

In addition, supervisory personnel will be trained in the following areas:

- A. The effects of H₂S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
- B. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
- C. The contents and requirements of the H₂S Drilling Operations Plan and the Public Protection Plan.

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 and the Public Protection 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:

Flare line.

Choke manifold.

Blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit.

Auxiliary equipment to include: rotating head.

B. Protective equipment for essential personnel:

Mark II Surviveair 30-minute units located in the dog house and at briefing areas.

C. H₂S detection and monitoring equipment:

2 - portable H₂S monitor positioned on location for best coverage and response. These units have warning lights and audible sirens when H₂S levels of 20 ppm are reached.

D. Visual warning systems:

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:

The mud program has been designed to minimize the volume of H₂S circulated to the surface.

A mud-gas separator will be utilized.

F. 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.

G. Communication:

Company vehicles equipped with cellular telephone and 2-way radio.

W A R N I N G

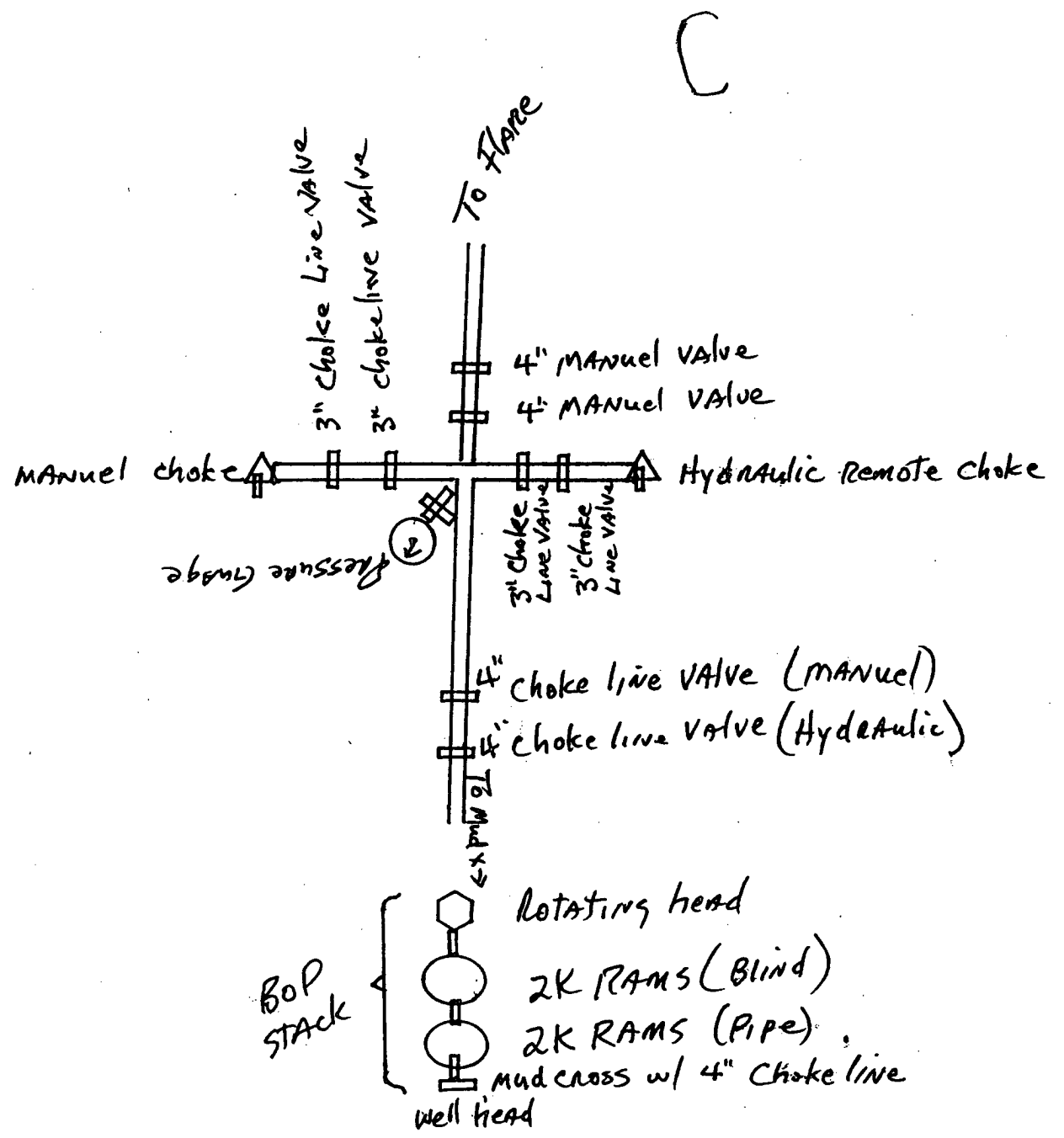
**YOU ARE ENTERING AN H₂S AREA
AUTHORIZED PERSONNEL ONLY**

- 1. BEARDS OR CONTACT LENSES NOT ALLOWED**
- 2. HARD HATS REQUIRED**
- 3. SMOKING IN DESIGNATED AREAS ONLY**
- 4. BE WIND CONSCIOUS AT ALL TIMES**
- 5. CK WITH MARBOB FOREMAN AT MAIN OFFICE**

CIRCLE DIAMOND DRILLING, LLC

1-505-706-0269

Exhibit 1
Circle Diamond Drilling, LLC
Hay "B" Federal #1
1980' FNL & 1980' FWL (SL)
1980' FNL & 330' FWL (BHL)
Section 9, T-26S, R-27E
Eddy County, NM



STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

The undersigned accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land or portion thereof, as described below:

Date: August 28, 2006

Lease #: NM 97871
Hay "B" Federal #1

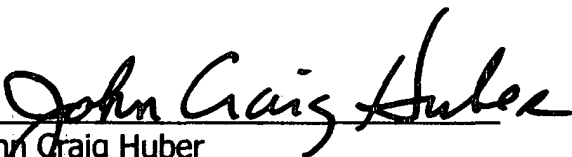
Legal Description: Section 9: ^{SW} NW/4NW/4
Township 26S – Range 27E
Eddy County, New Mexico

Formation(s): Delaware (L/Cherry Canyon)

Bond Coverage: Personal

BLM Bond File #: Cashiers check #076118

BOND # NIMS 000 414


John Craig Huber
Managing Member
Circle Diamond Drilling, LLC

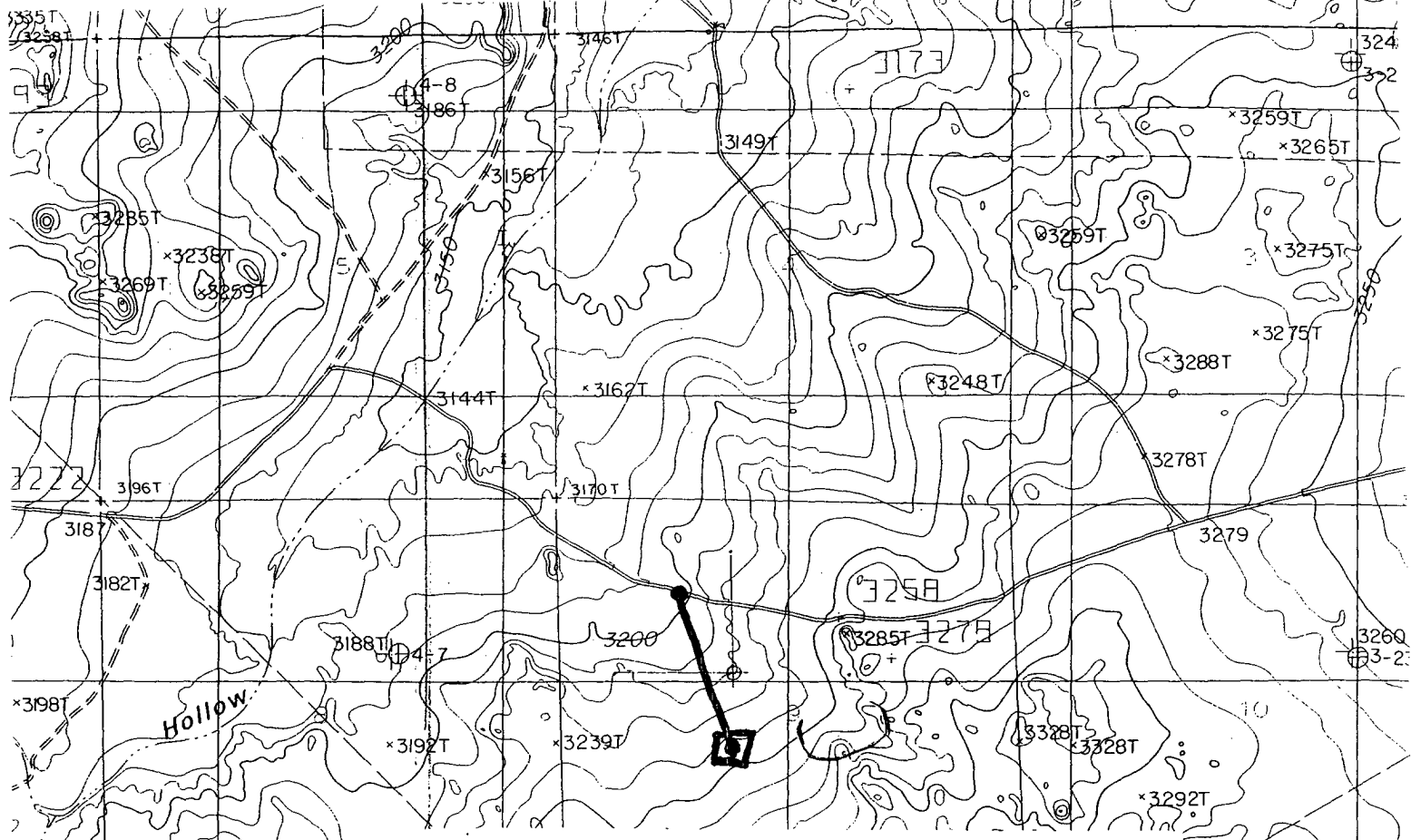
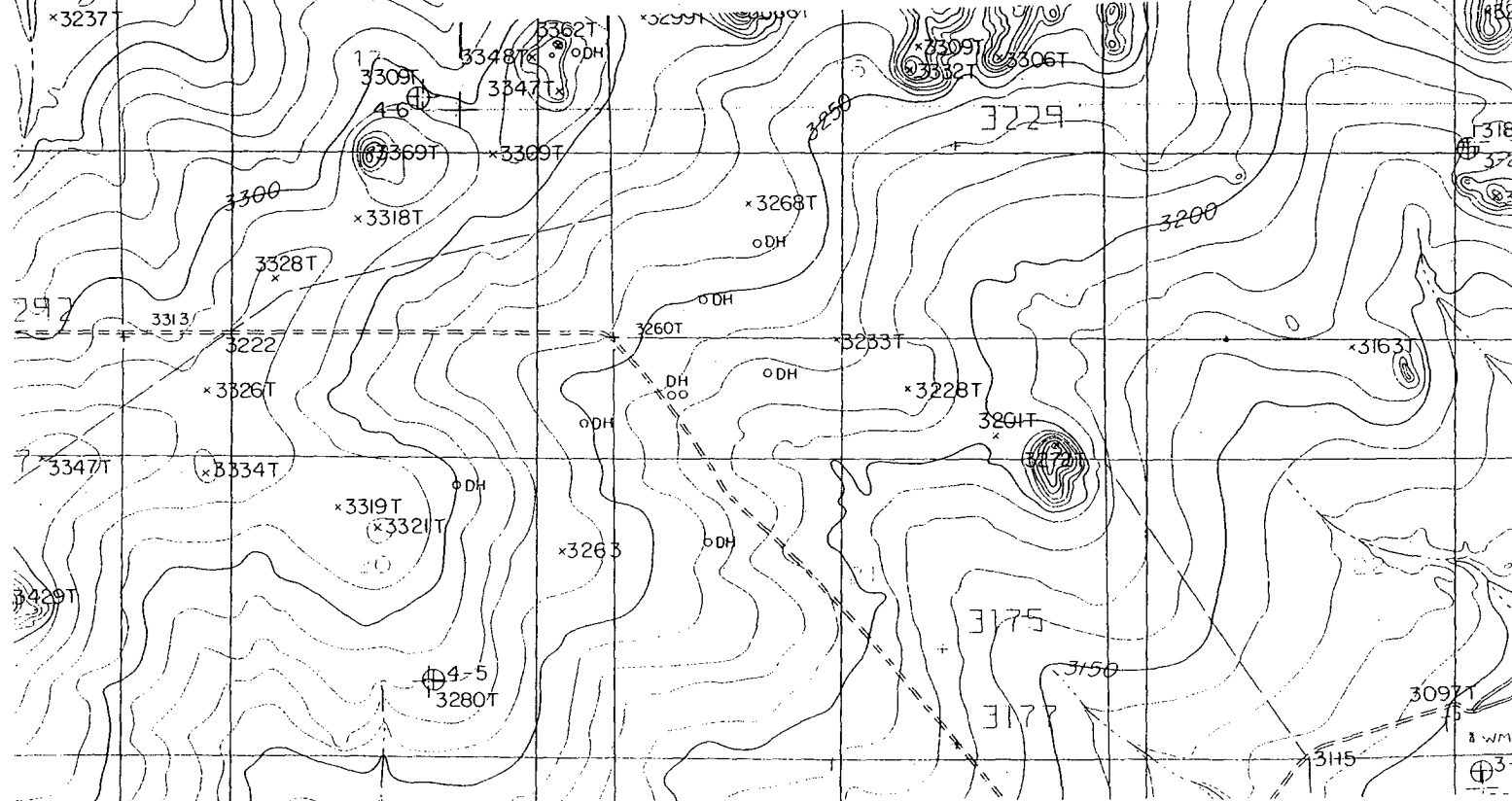


Exhibit 2
 Circle Diamond Drilling, LLC
 Hay "B" Federal #1
 1980' FNL & 1980' FWL (SL)
 1980' FNL & 330' FWL (BHL)
 Section 9, T-26S, R-27E
 Eddy County, NM



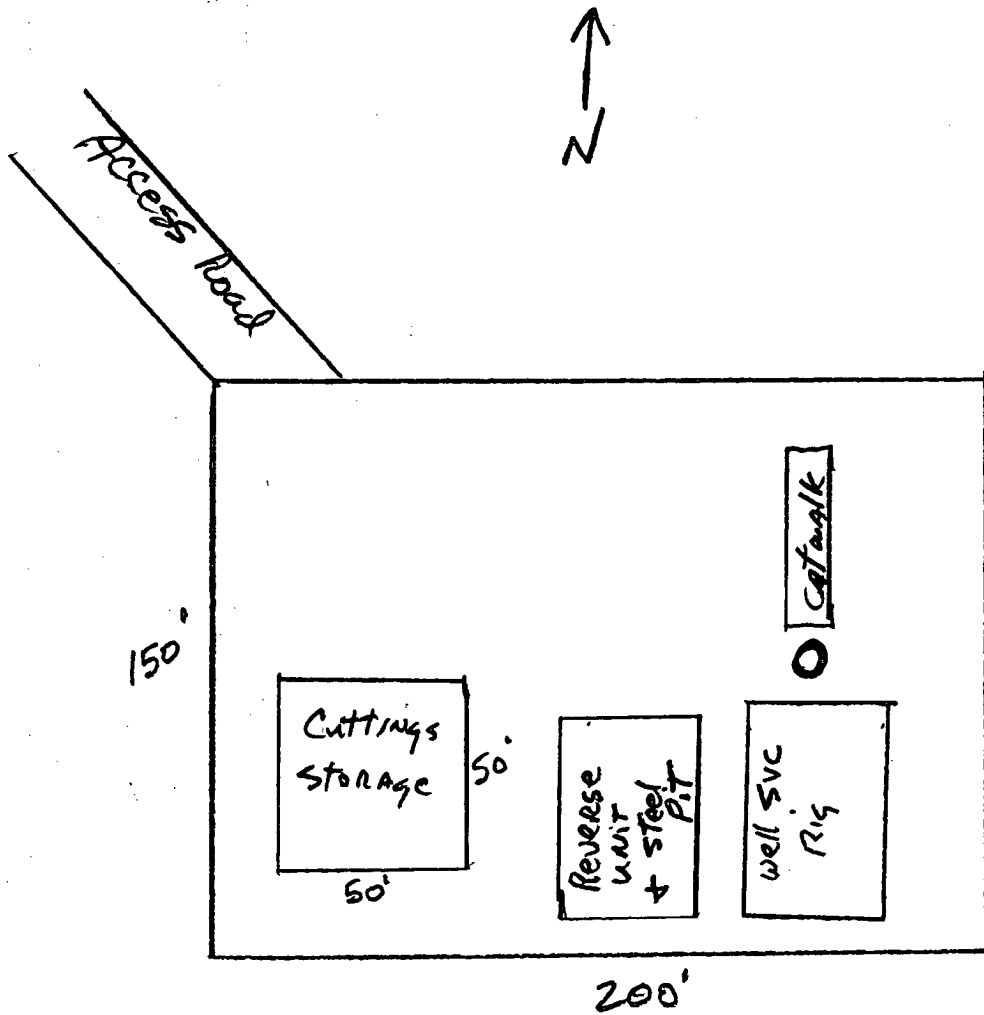


EXHIBIT 3
 CIRCLE DIAMOND DRILLING, LLC
 HAY "B" FEDERAL #1
 SL 1980' FSL & 1980' FWL
 BHL 1980' FSL & 330 FWL
 SEC. 9, T-26S, R27E
 EDDY COUNTY, NM

SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name: Circle Diamond Drilling, LLC Well Name & #: Hay B Fed. #1
Location 1980 F S L & 1980 F W L; Sec. 09, T. 26 S., R. 27 E.
Lease #: NM-97871 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) () Flood plain (stips attached)
() San Simon Swale (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. The old leached out pit are (300 x 300 ft.) to the north will be deep buried and ripped and reseeded with the mixture listed below.

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 cuttings pit 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 1/2 inch) with the following seed mixture, in pounds of Pure Live Seed (PLS), per acre. If broadcasting, the seeding rate must be doubled.

- () 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
(x) 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

CUTTINGS PIT CONSTRUCTION STANDARDS

The cuttings 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 pit 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. If the contents are removed then the liner should also be removed before reclamation.

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.

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

Well Name & No. Hay B Federal #1
Operator's Name: Circle Diamond Drilling, LLC
Location: SHL: 1980' FSL & 1980' FWL, Sec. 9, T26S., R. 27E., Eddy County, NM
Location: BHL: 1980' FSL & 330' FWL, Sec. 9, T. 26S., R. 27E., Eddy County, NM
Lease: NM-97871

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; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

A. Spudding

B. CIT 8 5/8 and 5 1/2 inch casing, running 3 1/2 inch slotted liner

C. BOP tests

2. A Hydrogen Sulfide (H₂S) Drilling Plan should be activated prior to drilling into the N/A 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.

7. 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. **After re-entering the abandoned well bore as per the attached 9/26/06 operators proposed procedure, down to 4150', the plug at 4750'-4850' will be tagged.**

2. Approval is granted to run the 3 1/2 inch slotted production liner to TD without cementing same in place. This liner must be tied back into the 5 1/2 inch **at least 200' above the kick off point in the 5 1/2 inch 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 5 1/2 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.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.
- A variance to test the _____ to the reduced pressure of ____psi with the rig pumps is approved.
 - 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.

4. Engineers can be reached at 505-706-2779 for any variances that might be necessary.

9/26/06

Circle Diamond Drilling, LLC Hay "B" Federal #1
1980' FSL, 1980' FWL Section 9, T-26S R-27E, Eddy Co., NM.

Proposed procedure.

We propose to re-enter the existing well bore of the Hay "B" Federal #1 with a 7 7/8" bit cleaning out plugs to top of 5 1/2" stub believed to be @ 1754'. The 5 1/2" casing will then be cleaned out with a 4 3/4" bit to below 4050' and tested to 1500#. If no leak-off, the plug from 4050'-4150' will be drilled leaving intact cmt. plug @ 4750'-4850' and CIBP @ 5350'. If casing integrity test fails a 5 1/2" tie-back string will be run to 1754', patched and retested. We will then re-perforate the lower Cherry Canyon from 4112'-24', acidize and swab test. If oil productive we will set a 100' cmt. plug and CIBP @ 4024' +/- Gyro survey will then be run. Then we will set a mechanical whipstock oriented to the west (270 degrees) and mill a window in the casing. At this point directional tools will be picked up and 100' radius curve built landing at a TVD of 4,118'. The lateral will then be drilled to a legal location of 1980' FSL and 330' FWL of section 9, T-26S R-27E. Anticipated MD is to be 6,000'.

2K system

BOPE SCHEMATIC

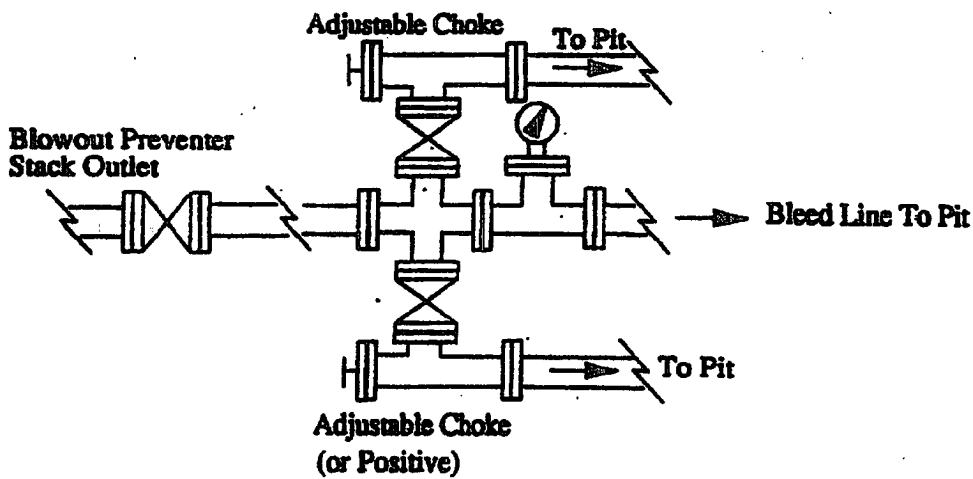
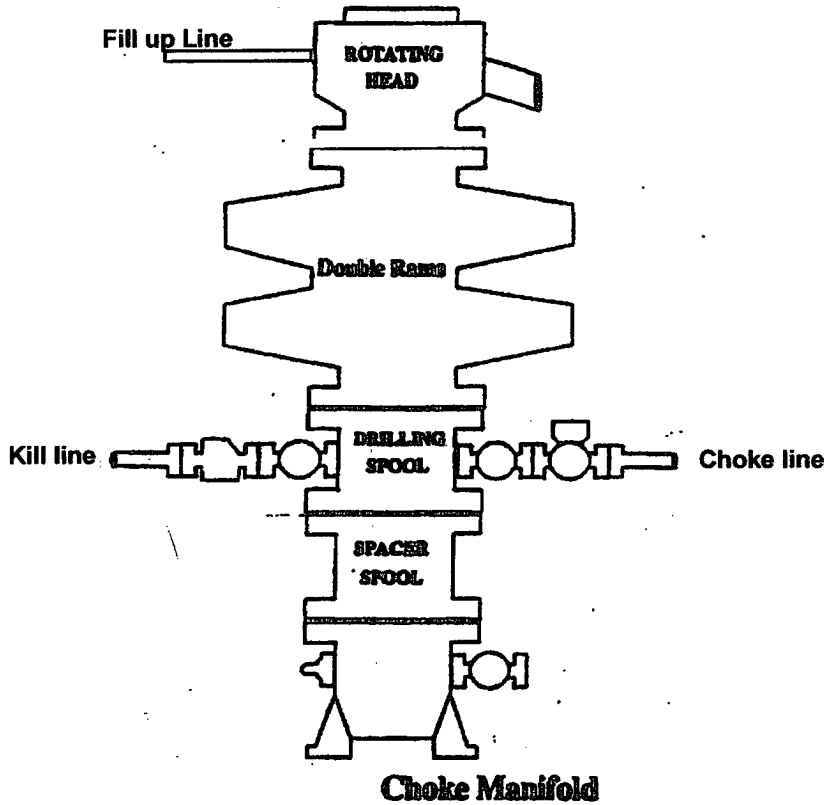


Exhibit One