

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

N.M. Oil Cons. Div. 2
SUBMIT IN TRIPLICATE
1301 W. Grand Ave.
Alamogordo, NM 88210
(Other instructions on reverse side)

I-14
FORM APPROVED
OMB NO. 1004-0136
Expires: February 28, 1995

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

5. LEASE DESIGNATION AND SERIAL NO. NM 14124
6. IF INDIAN, ALLOTTEE OR TRIBE NAME
7. UNIT AGREEMENT NAME
8. FARM OR LEASE NAME, WELL NO. Marquardt 12 Penn Federal No.2
9. API WELL NO. 30-015-34329
10. FIELD AND POOL, OR WILDCAT White City; Penn
11. SEC. T., R., M., BLOCK AND SURVEY OR AREA Sec. 12 T25S R26E
12. COUNTY OR PARISH Eddy
13. STATE NM
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* 17 miles South of Carlsbad
15. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, T.O. (Also to nearest drig. unit line, if any) 1330'
16. NO. OF ACRES IN LEASE 1280
17. NO. OF ACRES ASSIGNED TO THIS WELL 640
18. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 2134'
19. PROPOSED DEPTH 13000'
20. ROTARY OR CABLE TOOLS Rotary
21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3236' GR
22. APPROX. DATE WORK WILL START 06-30-05

RECEIVED
JUL 05 2005
OCD-ARTESIA

Carlsbad Controlled Water Basin

PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2" WITNESS	J-55 13 3/8"	54.5 #	200'	225 sx circulate
12 1/4"	NS-110 9 5/8"	40 #	3200'	1000 sx circulate
8 3/4"	P-110 5 1/2"	17 #	13000'	1920 sx TOC 2700'

From the base of the surface pipe through the running of production casing, the well will be equipped with a 5000 - psi BOP system. We are requesting a variance for the 13 3/8" surface casing and BOP testing from Onshore Order No. 2, which states all casing strings below the conductor, shall be pressure tested to .22 psi per foot or 1500 # whichever is greater, but not to exceed 70% of the manufactures stated maximum internal yield. During the running of the surface pipe and the drilling of the intermediate hole we do not anticipate any pressures greater than 1000 # and are requesting a variance to test the 13 3/8" casing and BOP system to 1000 # psi, and use rig pumps instead of an independent service company.

IN ABOVE SPACE, DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

SIGNED Zeno Farris TITLE Mgr. Ops. Admin DATE 06-06-05

PERMIT No. _____ APPROVAL DATE _____

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in any mineral lease which would entitle the applicant to conduct operations thereon.
CONDITIONS OF APPROVAL, IF ANY:
APPROVED BY /s/ Joe G. Lara TITLE FIELD MANAGER DATE JUL 01 2005

*See Instructions On Reverse Side
Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

APPROVAL FOR 1 YEAR
APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

S-17
9.1



Gruy Petroleum Management Co.

600 East Las Colinas Blvd. • Suite 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6450
Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907

A wholly-owned subsidiary of Magnum Hunter Resources, Inc., a NYSE company MHR

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

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

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

Lease No.: NM - 14124

Legal Description: All Sec 12, T25S-R26E
Containing 640 acres, Eddy County New Mexico

Formation (S): Morrow/Pennsylvanian

Bond Coverage: Nationwide BLM Bond

BLM Bond File No.: NM 2575

Authorized Signature: Zeno Farris
Representing Gruy Petroleum Management Co.

Name: Zeno Farris

Title: Manager, Operations Administration

Date: 06/06/05

Application to Drill

Gruy Petroleum Management Co.
 Marquardt 12 Penn Federal No. 2
 Unit Letter G Section 12
 T25S - R26E Eddy County, NM

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

1 Location: 2310' FNL & 1330' FEL Sec. 12 25S 26E

2 Elevation above sea level: GR 3236'

3 Geologic name of surface formation: Quaternary Alluvium Deposits

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

5 Proposed drilling depth: 13000'

6 Estimated tops of geological markers:

T/Salt	200'	Cisco Canyon	9928
B/Salt	800'	Strawn	10078
Delaware	1500	Atoka	10388
Bone Spring	6168	Morrow	11,158
Wolfcamp	8098	Barnett	11,768

7 Possible mineral bearing formation:

Strawn	Gas
Atoka	Gas
Morrow	Gas

8 Casing program:

Hole Size	Interval	Casing OD	Weight	Thread	Collar	Grade
17 1/2"	0-200'	13 3/8"	54.5	8-R	ST&C	J-55
12 1/4"	0-3200'	9 5/8"	40	8-R	ST&C	NS-110
7 7/8"	0-13000'	5 1/2"	17	8-R	ST&C	N-80 / S-95

Application to Drill

Gruy Petroleum Management Co.
Marquardt 12 Penn Federal No. 2
Unit Letter G Section 12
T25S - R26E Eddy County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 200' of 13 3/8" J-55 54.5 ST&C casing. Cement with 225 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 3200' of 9 5/8" NS-110 40# ST&C casing or casing sufficient to reach the base of the reef complex. Cement in two stages, first stage cement with 775 Sx. Of Class POZ/C Cement + additives, second stage cement with 225 Sx. Of Class "C" + additives, circulate cement to surface.
5 1/2"	Production	Set 13000' of 5 1/2" NP-80 / S-95 17# ST&C casing. Cement in two stages, first stage cement with 870 Sx. of Class POZ/C Cement + additives. Second stage cement with 1050 Sx of Class "C" Estimated top of cement 2700'.

10 Pressure control Equipment:

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

11 Proposed Mud Circulating System:

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 - 200'	8.4 - 8.6	30 - 32	May lose circ.	Fresh water spud mud add paper to control seepage and high viscosity sweeps to clean hole.
200' - 3200'	9.7 - 10.0	28 - 29	May lose circ	Brine water. Add paper as needed to control seepage and add lime to control pH (9-10). Use high viscosity sweeps to clean hole.
3200' - 8300'	8.4 - 9.9	28 - 29	NC	Fresh water. Paper for seepage. Lime for pH (9 - 9.5)
8300' - 10000'	8.45 - 8.9	28 - 29	NC	Cut brine. Caustic for pH control.
10000' - 13000'	8.9 - 9.7	29 - 45	NC	XCD Polymer mud system.

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

State of New Mexico

DISTRICT I
1625 N. FRENCH DR., HOBBBS, NM 86240

Energy, Minerals and Natural Resources Department

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210

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

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

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code 87280	Pool Name White City; Penn (Gas)
Property Code	Property Name MARQUARDT 12 PENN FEDERAL	Well Number 2
OGRID No. 162683	Operator Name GRUY PETROLEUM MANAGEMENT COMPANY	Elevation 3236'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	12	25-S	26-E		2310	NORTH	1330	EAST	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 640	Joint or Infill Y	Consolidation Code	Order No.
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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

Marquardt 12 Penn Fed #2

Marquardt 12 Penn Fed #1

1760'

GEODETIC COORDINATES
NAD 27 NME
Y=416591.7 N
X=528339.3 E
LAT.=32°08'43.06" N
LONG.=104°14'30.37" W

OPERATOR CERTIFICATION

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

Zeno Farris

Signature

Zeno Farris

Printed Name

Mgr Operations Admin

Title

June 7, 2005

Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

MAY 12, 2005

Date Surveyed

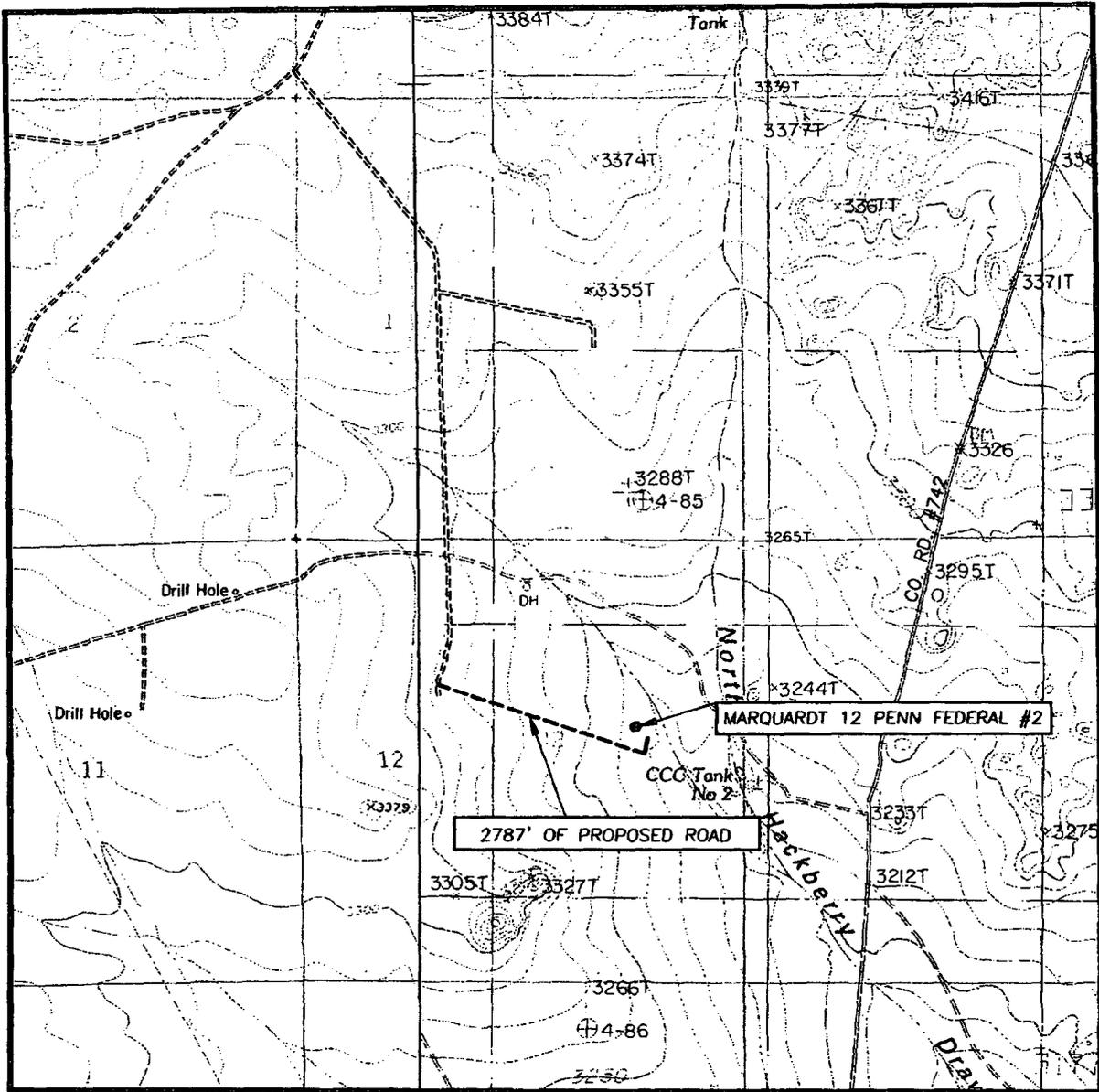
Signature *G. Edson* JR

Professional Surveyor

GARY EDSON
NEW MEXICO
5/26/05
05-110733

Certificate No. GARY EDSON 12641

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

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

SEC. 12 TWP. 25-S RGE. 26-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 2310' FNL & 1330' FEL

ELEVATION 3236'

OPERATOR GRUY PETROLEUM MANAGEMENT COMPANY

LEASE MARQUARDT 12 PENN FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

BOND DRAW, N.M.

Exhibit C



PROVIDING SURVEYING SERVICES
SINCE 1948
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

N.M. Oil Cons. DIV-Dist. 2
 1301 W. Grand Avenue
 DEPARTMENT OF THE INTERIOR
 BUREAU OF LAND MANAGEMENT
 Artesia, NM 88210

FORM APPROVED
 OMB No. 1004-0135
 Expires July 31, 1996

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.

RECEIVED
 SEP 23 2005

5. Lease Serial No.
NMNM14124

6. If Indian, Allottee or Tribe Name

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

8. Well Name and No.
Marquardt 12 Penn Federal No. 2

9. API Well No.
30-015-34329

10. Field and Pool, or Exploratory Area
White City; Penn (87280)

11. County or Parish, State
Eddy Co., NM

SUBMIT IN TRIPLICATE - Other instructions on reverse side

1. Type of Well
 Oil Well Gas Well Other

2. Name of Operator
 Gruy Petroleum Management Co.

3a. Address
 P. O. Box 140907 Irving, TX 75014-0907

3b. Phone No. (include area code)
 972-401-3111

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
 Sec 12-T25S-R26E
 2310' FNL & 1330' FEL

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

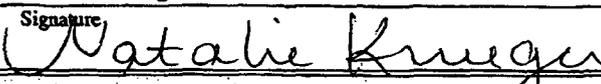
TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input checked="" 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 type="checkbox"/> Other _____
	<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 recomplete 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 recompletion 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.)

Gruy is altering casing design as shown below:
 Intermediate: Set 2700' of 40# 9-5/8" N-80 LTC casing.
 Production: Set 13000' of 17# 5-1/2" P-110 LTC casing.

14. I hereby certify that the foregoing is true and correct

Name (Printed/Typed)
 Natalie Krueger

Signature


Title
 Regulatory Technician

Date
 September 19, 2005

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by (ORIG. SGD.) ALEXIS C. SWOBODA

Office PETROLEUM ENGINEER

Date SEP 22 2005

Office RFO

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.

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

N.M. Oil Cons. DIV-Dist. 2
 UNITED STATES DEPARTMENT OF THE INTERIOR
 BUREAU OF LAND MANAGEMENT
 1201 W. Grand Avenue
 Artesia, NM 88210

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 OMB No. 1004-0135
 Expires July 31, 1996

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5. Lease Serial No. NMNM14124
6. If Indian, Allottee or Tribe Name
7. If Unit or CA/Agreement, Name and/or No.
8. Well Name and No. Marquardt 12 Penn Federal No. 2
9. API Well No. 30-015-34329
10. Field and Pool, or Exploratory Area White City; Penn (87280)
11. County or Parish, State Eddy Co., NM

SUBMIT IN TRIPLICATE - Other Instructions on reverse side

RECEIVED
 OCT 21 2005
 ODU-ARTESIA

1. Type of Well <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other	
2. Name of Operator Gruy Petroleum Management Co.	
3a. Address P. O. Box 140907 Irving, TX 75014-0907	3b. Phone No. (include area code) 972-401-3111
4. Location of Well (Footage, Sec., T., R., M., or Survey Description) Sec 12-T25S-R26E 2310' FNL & 1330' FEL	

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TYPE OF SUBMISSION	TYPE OF ACTION			
<input 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
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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 recomplate 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 recomplate 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.)

- 09-23-05 Spudded 17-1/2" hole at 6am. Ran 5 jts 13-3/8" 54.5# J-55 STC casing to 217'. Cemented with 230sx Class C and circulated 38sx to pit. WOC 12.25 hrs. Tested casing to 1200psi for 15 minutes.
- 09-26-05 In 12-1/4" hole, ran 63jts 9-5/8" 40# J-55 LTC casing to 2705'. Cemented with lead of 625sx Interfill C + 1/4# Flocele and tail of 200sx Premium Plus + 1% CaCl. Circulated 165sx to pit. WOC 13.75 hours.
- 09-27-05 Tested casing to 1500psi for 15 minutes.

ACCEPTED FOR RECORD
 OCT 19 2005
ACS
 ALEXIS C. SWOBODA
 PETROLEUM ENGINEER

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

Natalie Krueger

Signature

Natalie Krueger

Title
Regulatory Technician

Date
10-11-05

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by	Title	Date
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	

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