(This space for Federal or State office use)

PERMIT NO.

1301 W. Grand Avergantin Triplicate United States (Other instructions on Particular Property States)

FORM APPROVED OMB NO. 1004-0136

DEPARTMENT	OF THEYNTE	RIOR 88270 """	e dide,	CAPITES. I EDICAL	y 20, 1990	
BUREAU OF LA	5. LEASE DESIGNATION AN NMNM-0483					
APPLICATION FOR PE	RMIT TO DR	ILL OR DEEPEN		6. IF INDIAN, ALLOTTEE OR		
a. TYPE OF WORK DRILL	DEEPEN [7				
b. TYPE OF WELL	DEEPEN	ـــا		7. UNIT AGREEMENT NAME	i	
OIL GAS WELL OTHER		SINGLE MUL	TIPLE	8. FARM OR LEASE NAME, 1	WELL NO.	
NAME OF OPERATOR				Kersey William	ns A Federal	
SDX Resources, Inc. ADDRESS AND TELEPHONE NO.		RECEIV	ED_	9.APHWELL NO.	-33689	
	10. FIELD AND POOL, OR W	<u> </u>				
LOCATION OF WELL (Report location clearly and in accordan	2/685-1761 ce with any State require	0CT 2;6 :		Artesia, GL-YE		
At surface 2310' FNL 620' FEL, H				11. SEC., T., R., M., OR BLK AND SURVEY OR AREA	•	
At proposed prod. zone Same	Kesysh Co	mirolled Water Beein		Sec 28, T17S,	R28E	
4. DISTANCE IN MILES AND DIRECTION FROM NEAREST TO	OWN OR POST OFFICE	•		12. COUNTY OR PARISH	13. STATE	
10 miles East of Artesia, NM				Eddy	NM	
DISTANCE FROM PROPOSED* LOCATION TO NEAREST	· · · · · · · · · · · · · · · · · · ·	16. NO. OF ACRES IN LEASE		ACRES ASSIGNED S WELL	1	
PROPERTY OR LEASE LINE FT (Also to nearest drig. unit line, if any)	330	240	10111	40		
DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED,		19. PROPOSED DEPTH	20. ROTAF	Y OR CABLE TOOLS		
OR APPLIED FOR, ON THIS LEASE, FT.	620	3500'	<u> </u>	Rotary		
ELEVATIONS (Show whether DF, RT, GR, etc.) 3674' GR	22. APPROX. DATE WORK WILL START* 10/30/04					
	PROPOSED CAS	SING AND CEMENTING PROGRAM	A	1		
SIZE OF HOLE GRADE, SIZE OF CASING	WEIGHT PER FO	OOT SETTING DEPTH	1	QUANTITY OF CEMEN	T	
12-1/4" 8-5/8" J-55	24#	450'		325 sx		
7-7/8" 4-1/2 - 5-1/2" J-55	9.5# - 17#	3500'		700 sx		
Plan to drill a 12-1/4" hole to 450'. Set 24# 8 Run 5-1/2" J-55 14# csg & cmt to surf. Vill perf & stimulate as necessary for optime Surface Use & Operations Plan Prilling Program H2S Plan EXHIBITS: : BOP Diagram	-	Appro n Gener	Yal su Al Reo	DT-CNL-GR & DLL-GF BJECT TO UIREMENTS AF JLATIONS	-	
2: Survey Plat 3: Access Maps 4: One Mile Radius Map 5: Rig Orientation Diagram		ATTACI		,	ej visto i	
2: Survey Plat 3: Access Maps 4: One Mile Radius Map	is to deepen, give dat ocations and measun	ta on present productive zone and p	roposed new	productive zone. If proposal	ego visita di	

OCT 2 5 2004 TITLE FIELD MANAGER *See instructions On Reverse Side

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:

"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 of largericy by the partment of largerican by the large United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

<u>District I</u> 1625 N. French Dr., Hobbs, NM 88240 District II
1301 W. Grand Avenue, Artesia, NM 88210
District III 1000 Rio Brazos Road, Aztec, NM 87410 District IV 1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico **Energy Minerals and Natural Resources**

Oil Conservation Division 1220 South St. Francis Dr. Santa Fe, NM 87505

For drilling and production facilities, submit to appropriate NMOCD District Office.
For downstream facilities, submit to Santa Fe office

Form C-144

June 1, 2004

Pit or Below-Grade Tank Registration or Closure
Is pit or below-grade tank covered by a "general plan"? Yes \[\] No \[\]
Type of action: Registration of a pit or below-grade tank [2] Closure of a pit or below-grade tank [2]

Operator: SDX Resources, Inc. 432/68	5-1761 	resources.com					
Address: PO Box 5061, Midland, TX 79704							
Facility or well name: Kersey Williams A_API#: #7	U/L or Qtr/Qtr H Sec 28 T 17	<u> /Sr28E</u>					
Facility or well name: Kersey Williams A API#: #7 County: Eddy Latitude Longitude N32 48 23.1 W10	NAD: 1927 [] 1983 [] Surface Own	er Federal 🖽 State 🔲 Private 🔲 Indian 🔲					
Pit	Below-grade tank	RECEIVED					
Type: Drilling Production Disposal	Volume:bbl Type of fluid:	•					
Workover ☐ Emergency ☐ Lined XX Unlined ☐	Construction material: Double-walled, with leak detection? Yes If not, e	SEP 2·3 7004					
Liner type: Synthetic XXThickness 12 mil Clay	Double-watten, whit reak detection: Yes I i wor,	SPARTESIA:					
Pit Volume 8000 bbl							
	Less than 50 feet	(20 points)					
Depth to ground water (vertical distance from bottom of pit to seasonal high	50 feet or more, but less than 100 feet	(10 points) 10					
water elevation of ground water.)	100 feet or more	(0 points)					
	Yes	(20 points)					
Wellhead protection area: (Less than 200 feet from a private domestic	No	(0 points)					
water source, or less than 1000 feet from all other water sources.)	7 11 200 5 1						
Distance to surface water: (horizontal distance to all wetlands, playas,	Less than 200 feet 200 feet or more, but less than 1000 feet	(20 points) (10 points)					
irrigation canals, ditches, and perennial and ephemeral watercourses.)	1000 feet or more	(0 points)					
		10					
	Ranking Score (Total Points)						
If this is a pit closure: (1) attach a diagram of the facility showing the pit's							
your are burying in place) onsite 🔲 offsite 🔲 If offsite, name of facility							
remediation start date and end date. (4) Groundwater encountered: No 🔲 Y	(es I If yes, show depth below ground surface	ft. and attach sample results. (5)					
Attach soil sample results and a diagram of sample locations and excavation	i						
Additional Comments:							
I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that the above-described pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines , or an (attached) alternative OCD-approved plan .							
Printed Name/Title Chuck Morgan, Engineer	_ Signature Chal Many						
Your certification and NMOCD approval of this application/closure does not relieve the operator of liability should the contents of the pit or tank contaminate ground water or otherwise endanger public health or the environment. Nor does it relieve the operator of its responsibility for compliance with any other federal, state, or local laws and/or							
regulations.	regulations.						
Approval: Gerry Guye	Dand June	Date: 9-27-04					
Printed Name/Title Compliance Officer	Signature	Date: //					

SURFACE USE AND OPERATIONS PLAN

SDX RESOURCES, INC.

Kersey Williams A Federal # 7 2310' FNL, 620' FEL

Unit H, Sec. 28, T17S, R28E Eddy Co., NM

1. Existing Roads:

- A. The well site and elevation plat for the proposed well is shown in Exhibit #2. It was staked by Dan Reddy, Carlsbad, New Mexico.
- B. All roads to the location are shown in Exhibit #3A. The existing rods are labeled and upgrading of the road prior to drilling will be done where necessary as determined during the onsite inspection.
- C. Directions to location: E. of Artesia on Hwy. 82 ~ 12 miles. Turn left on CR 208 and go .6 M and turn right to location.
- D. Routine grading and maintenance of existing roads will be conducted as necessary to maintain their condition as long as any operations continue on this lease.

2. Proposed Access Road:

Exhibit #3A&B shows the existing road.

No new road will be needed. Existing roads are shown on Exhibit #3 &B.

3. <u>Location of Existing Wells:</u>

Exhibit #4 shows all existing wells within a one-mile radius of this well.

4. Location of Existing and/or Proposed Facilities and ROW's:

- A. If the well is productive:
 - 1. The well will be tested and if commercial production is established a battery consisting of 2-300bbl. steel stock tanks, a 300 bbl fiberglass brine tank, and a 4x20 steel heater treater will be constructed on the existing pad.
 - 2. A Power line will be built to location and will be permitted by Central Valley Electric Company.
- B. If the well is productive, rehabilitation plans are as follows:
 - 1. The reserve pit will be back-filled after the contents of the pit are dry (within 120 days after the well is complete).
 - 2. Topsoil removed from the drill site will be used to raconteur the pit area to the original natural level, as nearly as possible, and reseeded as per BLM specifications.

5. Location and Type of Water Supply:

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

6. Source of Construction Materials:

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

7. <u>Methods of Handling Water Disposal:</u>

- A. Drill cuttings not retained for evaluation purposes will be disposed into the reserve pit.
- B. Drilling fluids will be contained in plastic lined pits. The reserve pit will contain any excess drilling fluid or flow from the well during drilling, cementing and completion operations. The reserve pit will be an earthen pit, approximately 80' x 55' x 8' deep, fenced, and plastic-lined (5-7 mil thickness).
- C. Water produced from the well during completion may be disposed into the reserve pit. After the well is permanently placed on production, produced water will be trucked to an approved disposal site.
- D. Garbage and trash produced during drilling or completion operations will be collected in a trash trailer by a contractor. All water and fluids will be disposed of into the reserve pit. Salts and other chemicals produced during drilling or testing will be disposed into the reserve pit. No toxic waste or hazardous chemicals will be produced by this operation.
- E. After the rig is moved out and the well is either completed or abandoned, all waste materials will be cleaned-up within 90 days. No adverse materials will be left on the location. The reserve pit will be completely fenced and kept closed until it has dried. When the reserve pit is dry enough to breakout and fill and as weather permits the unused portion of the well site will be leveled and reseeded as per BLM specifications. Only that part of the pad required for production facilities will be kept in use.

8. Ancillary Facilities:

None

9. Well Site Layout:

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

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

10. Plan for Restoration of the Surface:

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

All trash and garbage will be hauled away in order to leave the location in an anesthetically pleasing condition. All pits will be filled and the location leveled within 120 days after abandonment.

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

11. Surface Ownership:

BLM

Grazing Leased to Bogle, LTD

Surface leasee will be notified.

12. Other Information:

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

Kersey Williams A Federal #7 – Surface Use Plan Page 4

B. An archaeological survey is on file.

13. <u>Lessee's and Operator's Representative</u>:

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

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

Certification:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which currently exist; that the statements made in this plan are to the best of my knowledge, true and correct; and the work associated with the operations proposed herein will be performed by SDX Resources Inc. and its contractors and subcontractors in conformity with this plan and the terms and conditions which it is approved.

SDX Resources Inc.

John Pool Vice-President DRILLING PROGRAM SDX Resources Inc. Kersey Williams A Federal # 7 2310' FNL, 620' FEL Unit H Sec. 28, T17S, R28E Eddy Co., NM

1. Geologic Name of Surface Formation:

Permian

2. **Estimated Tops of Important Geologic Markers:**

Yates	600
7- Rivers	900'
Queen	1200'
Grayburg	1600'
San Andres	1950'

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

Water Sand	150' – 200'	Fresh Water
Yates	650	Oil & Gas
7-Rivers	950	Oil & Gas
Queen	1400'	Oil & Gas
Grayburg	1880'	Oil & Gas
San Andres	2800'	Oil & Gas

Fresh water sands will be protected by running 8-5/8" casing to a minimum depth of 450' and circulating cement. All other zones will be isolated by running 4-1/2" or 5-1/2" production casing and circulating cement.

4. **Casing Program:**

Hole Size	<u>Interval</u>	OC Csg	Weight Grade Jt Cond Type
12-1/4"	0 - 450	8-5/8"	24#, J55, New
7-7/8"	0 - TD	4-1/2" - 5-1/2"	9.5# - 17#, J55, Used

Cement Program:

8-5/8" Surface Casing:	Cemented to surface with 325 sx of Class C with 2% CaCl and ¼#/sx Flocele.
5-1/2" Production Casing:	Cemented with 300 sx of Class C and 400 sx of

Lite C with 6# salt/sx and ¼#/sx Flocele. This should circulate cement to the surface.

5. Minimum Specifications for Pressure Control:

The blowout preventer equipment (BOP) shown in Exhibit #1 will consist of an annular bag type preventer (1000 psi WP). Unit will be hydraulically operated. BOP will be nippled up on the 8-5/8" surface csg and used continuously until TD is reached. BOP and accessory equipment will be tested to 1000 psi before drilling out of surface casing. A 2" kill line and a 2" choke line will be included in the drilling spool. Other accessories to the BOP equipment will include a kelly cock.

6. Types and Characteristics of the Proposed Mud System:

The well will be drilled to TD with a combination of fresh water and brine water mud system. The applicable depth and properties of this system are as follows:

<u>Depth</u>	<u>Type</u>	Weight (ppg)	Viscosity (sec)	Waterloss (cc)
0 - 450	Fresh Water (spud)	8.5	40 – 45	N/C
450 – TD	Brine water, SWG, Starch	10.0	30	24

Sufficient mud materials to maintain mud properties and meet minimum lost circulation and weight increase requirements will be kept at the wellsite at all times.

7. Auxiliary Well Control and Monitoring Equipment:

- A. A kelly cock will be kept in the drill string at all times.
- B. A mud logging unit complete with H2S detector will be continuously monitoring drilling penetration rate and hydrocarbon shows from 500' to TD.

8. Logging, Testing and Coring Program:

- A. Drillstem tests will be run on the basis of drilling shows.
- B. The electric logging program will consist of GR-Dual Laterolog and GR-Compensated Neutron-Density from TD to surface casing.
- C. Conventional coring may be performed in select intervals if deemed necessary.
- D. Further testing procedures will be determined after the production casing has been cemented at TD based on drill shows and log evaluation.

9. <u>Abnormal Conditions, Pressures, Temperatures, & Potential Hazards:</u>

No abnormal pressure or temperatures are anticipated. The estimated bottom hole temperature (BHT) at TD is 94° and estimated maximum bottom-hole pressure (BHP) is 800 psig. No abnormal concentrations of hydrogen sulfide or other hazardous gases or fluids have been encountered, reported or are known to exist at this depth in this area. All H2S operation precautions will be followed (see attached H2S drilling operations plans). No major loss circulation zones have been reported in offsetting wells.

10. Anticipated Starting Date and Duration of Operations:

Road and location work will not begin until approval has been received from the BLM. The anticipated spud date is Oct. 30, 2004. Once commenced, the drilling operation should be finished in approximately 10 days. If the well is productive, an additional 30 days will be required for completion and testing before a decision is made to install permanent facilities.

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

SDX Resources Inc.

Kersey Williams A Federal # 7

2310' FNL, 620' FEL Sec. 28, T17S, R28E, Unit H Eddy Co., NM

I. Hydrogen Sulfide Training

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will receive training from a qualified instructor in the following areas prior to commencing drilling operations on this well:

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

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

- 1. The effects of H2S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
- 2. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
- 3. The contents and requirements of the H2S Drilling Operations Plan.
- 4. Anticipated H2S concentrations are below levels that would require a H2S Contincency Plan as required by the NMOCD.

There will be an initial safety session just prior to commencing operations on the well. The initial session shall include a review of the site's specific H2S Drilling Operations Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

II. H2S SAFETY EQUIPEMNT AND SYSTEMS

Note: All H2S safety equipment and systems will be installed, tested, and operational when drilling reaches a depth of 500'.

- 1. Well Control Equipment:
 - A. Annular Preventer to accommodate all pipe sizes with properly sized closing
- 2. Protective Equipment for Essential Personnel:
 - A. Mark II Surviveair 30-minute units located in the dog house.

Williams A Fed. #4 – H2S Drlg Op Plan Page 2

3. H2S Detection and Monitoring Equipment:

- A. 1 portable H2S monitor positioned on location for best coverage and response.
- B. Mud logging trailer shall have H2S monitoring equipment.

4. Visual Warning Systems:

- A. Guy lines will be flagged and a wind sock will be positioned on location.
- B. Caution/Danger signs shall be posted on roads providing direct access to location.

5. Mud Program:

The mud program has been designed to minimize the volume of H2S circulated to the surface. Proper mud weight, safe drilling practices, will minimize hazards when penetrating H2S bearing zones.

6. Metallurgy:

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

7. Communication:

Radio communications in company vehicles including cellular telephone and 2-way radio.

8. Well Testing:

No DST's are planned.

Form C-102

District | 1625 N. French Dr. Hobbs, NM 88240

<u>District II</u> 811 South First, Artesia, NM 88210

District III

<u>District IV</u> 2040 South Pacheco, Santa Fe, NM 87505 State of New Mexico Energy, Minerals & Natural Resources

OIL CONSERVATION DIVISION

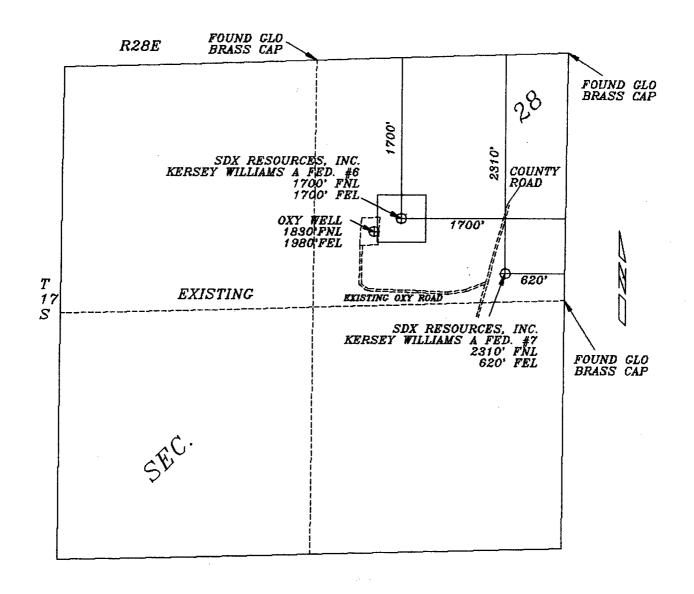
2040 South Pacheco Santa Fe, N M 87505 Revised March 17, 1999 Submit to Appropriate District Office State Lease — 4 Copies Fee Lease — 3 Copies

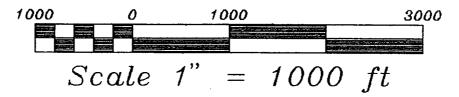
MENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

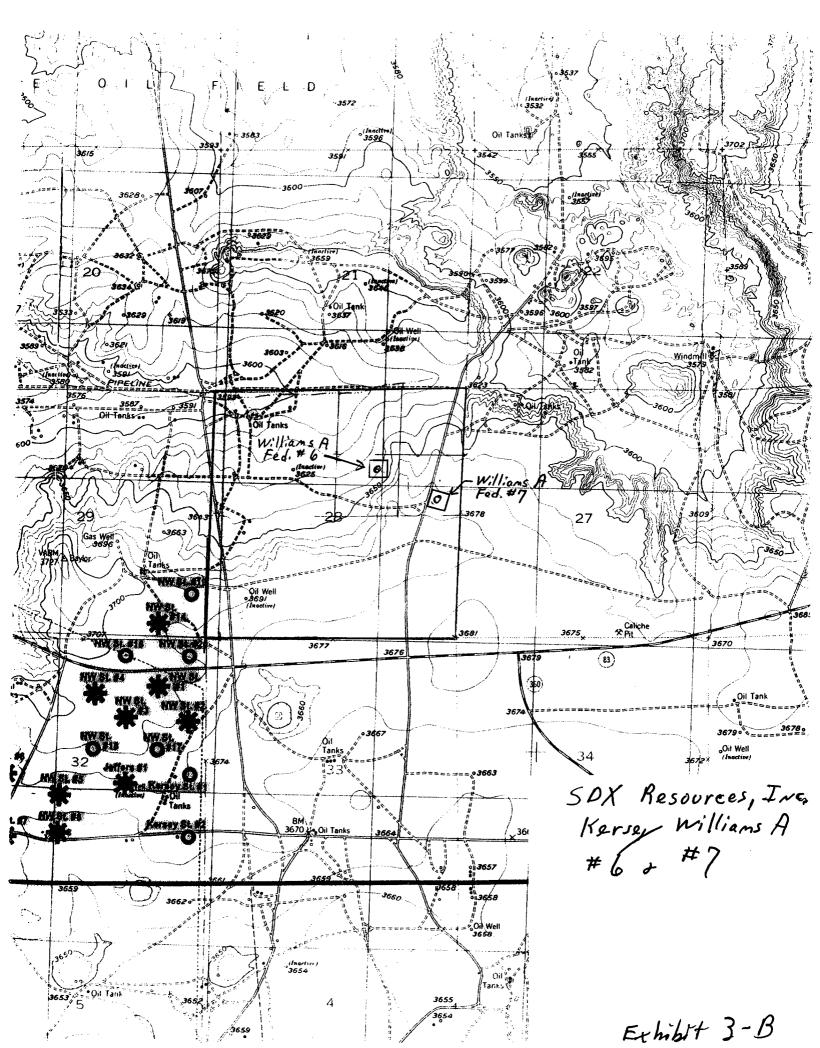
WELL LOCATION AND ACREAGE DEDICATION PLAT												
API Number Pool Code Pool Name 96830 Artesia, GL-YE												
Property Code Property Name Well Number												
33871 OGRID No.				KER	SE	WILLIAN Operation N	<u>15 .</u>	A FEI	DERAL		Elevat	7
020451					SDX	RESOUR		S, INC	<u>, </u>		367	4
Surface Location												
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H 28 17-S 28-E 2310 NORTH 620 EAST EDDY Bottom Hole Location If Different From Surface												
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Dedicated Acres	Joint or	Infill	Consolidation	n Code	Orc	ler No.				l		
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WELL LOCATION SKETCH

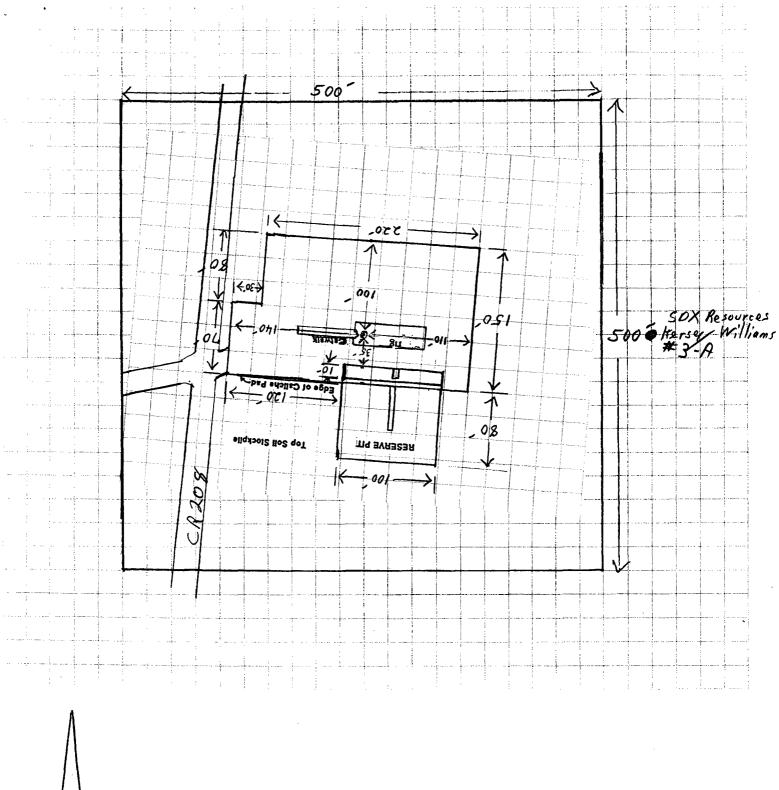




PREPARED FOR: SDX RESOURCES, INC.
PREPARED BY: DAN R. REDDY NM PE&PS #5412
SEPTEMBER 7, 2004, REVISED SEPTEMBER 17, 2004



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SDX Resources, Inc. Drilling rig layout

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

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

September 22, 2004

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

Lease No.: NMNM-048344

Lease Name: Williams A Federal #7

Legal Description of Land: Unit H, 2310' FNL 620' FEL

Sec. 28, T17S, R28E

Eddy Co., NM

Formation (s): Artesia, GL-YE

Bond Coverage: Statewide Bond - State of New Mexico

BLM Bond File No.: NM2307

Authorized Signature:

Vice-President