

Revised
OCD-ARTESIA

C-06-17

Form 3160-3
(August 1999)

0783

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED

JAN 23 2006

APPLICATION FOR PERMIT TO DRILL OR REENTER

0
OMB No. 1004-0136 Expires November 30, 2000
5. Lease Serial No. NM-76944
6. If Indian, Allottee or Tribe Name Not Applicable
7. If Unit or CA Agreement, Name and No. Not Applicable
8. Lease Name and Well No. Pan Am Pardue ALZ Federal #2
9. API Well No. 30-015-33874
10. Field and Pool, or Exploratory Indian Basin Morrow
11. Sec., T., R., M., or Blk. and Survey or Area Section 22, T21S-R24E
12. County or Parish Eddy
13. State NM

1a. Type of Work: ☒ DRILL ☐ REENTER

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

2. Name of Operator
Yates Petroleum Corporation

3A. Address **105 South Fourth Street
Artesia, New Mexico 88210**

3b. Phone No. (include area code)
(505) 748-1471

4. Location of Well (Report location clearly and in accordance with any State requirements.)*

At surface **660' FSL and 2610' FEL**
At proposed prod. Zone **same as above**

14. Distance in miles and direction from nearest town or post office*
Approximately 14 miles NW of Carlsbad, New Mexico

15. Distance from proposed*
location to nearest
property or lease line, ft.
(Also to nearest drig. unit line, if any)

660'

16. No. of Acres in lease

17. Spacing Unit dedicated to this well

640

18. Distance from proposed location*
to nearest well, drilling, completed,
applied for, on this lease, ft.

19. Proposed Depth
10,000'

20. BLM/BIA Bond No. on file

585997

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
3650' GL

22. Approximate date work will start*
ASAP

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. | 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above). |
| 2. A Drilling Plan. | 5. Operator certification. |
| 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). | 6. Such other site specific information and/or plans as may be required by the authorized office. |

25. Signature 	Name (Printed/Typed) Cy Cowan	Date 12/5/2005
------------------------------------------------------------------------------------------------------	-----------------------------------------	--------------------------

Title:
Regulatory Agent
Approved by (Signature) **cy@ypcnm.com**

/s/ Joe G. Lara	Name (Printed/Typed) /s/ Joe G. Lara	Date JAN 19 2006
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Title ACTING FIELD MANAGER	Office CARLSBAD FIELD OFFICE
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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 reverse)

**APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED**

Witness Surface Casing

Carlsbad Controlled Water Basin

District I
225 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

Form C-144
March 12, 2004

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

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 ☒ Closure of a pit or below-grade tank ☐

Operator: Yates Petroleum Corporation Telephone: (505) 748-4372 e-mail address: debbiec@yppcnn.com
Address: 105 South 4th Street, Artesia, NM 88210
Facility or well name: Pan Am Pnduc ALZ Federal Com. #2 API #: _____ U/L or Qm/Qtr Q Sec 22 T 21S R 24B
County: Eddy Latitude _____ Longitude _____ NAD: 1927 ☐ 1983 ☐ Surface Owner Federal ☒ State ☐ Private ☐ Indian ☐

Pit Type: Drilling ☒ Production ☐ Disposal ☐
Workover ☐ Emergency ☐
Lined ☒ Unlined ☐
Liner type: Synthetic ☒ Thickness 12 mil Clay ☐ Volume
_____ bbl

Below-grade tank

Volume: _____ bbl Type of fluid: _____

Construction material: _____

Double-walled, with leak detection? Yes ☐ If not, explain why not.

Depth to ground water (vertical distance from bottom of pit to seasonal high water elevation of ground water.)	Less than 50 feet	(20 points)
	<u>50 feet or more, but less than 100 feet</u>	<u>(10 points)</u>
	100 feet or more	(0 points)
Wellhead protection area: (Less than 200 feet from a private domestic water source, or less than 1000 feet from all other water sources.)	Yes	(20 points)
	<u>No</u>	<u>(0 points)</u>
Distance to surface water: (horizontal distance to all wetlands, playas, irrigation canals, ditches, and perennial and ephemeral watercourses.)	Less than 200 feet	(20 points)
	200 feet or more, but less than 1000 feet	(10 points)
	<u>1000 feet or more</u>	<u>(0 points)</u>
Ranking Score (Total Points)		Points <u>10</u>

If this is a pit closure: (1) attach a diagram of the facility showing the pit's relationship to other equipment and tanks. (2) Indicate disposal location:

onsite ☐ offsite ☐ If offsite, name of facility _____ (3) Attach a general description of remedial action taken including remediation start date and end date. (4) Groundwater encountered: No ☐ Yes ☐ If yes, show depth below ground surface _____ ft. and attach sample results. (5) Attach soil sample results and a diagram of sample locations and excavations.

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 ☐, a general permit ☒, or an (attached) alternative OCD-approved plan ☐.

Date: December 2, 2004

Printed Name/Title Debbie L. Caffall/Regulatory Technician Signature Debbie L. Caffall

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.

Approval:

Date: 1/21/05

Printed Name/Title Mike Bratcher Compliance Officer Signature Mike Bratcher

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

District II
811 South First, 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 August 15, 2000

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

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number		2 Pool Code		3 Pool Name Indian Basin Morrow		
4 Property Code		5 Property Name Pan Am Pardue ALZ Federal Com.			6 Well Number 2	
7 OGRID No. 025575		8 Operator Name Yates Petroleum Corporation			9 Elevation 3650'	

10 Surface Location

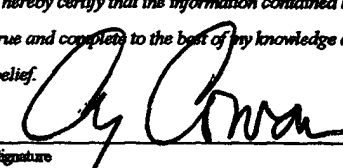
UL or lot no. O	Section 22	Township 21S	Range 24E	Lot Idn	Feet from the 660	North/South line South	Feet from the 2610	East/West line East	County Eddy
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11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
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12 Dedicated Acres 640	13 Joint or Infill	14 Consolidation Code	15 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

NM-89143				17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.  Signature Cy Cowan Printed Name Regulatory Agent Title 11/23/2004 Date	
NM-56350				NM-76944	
NM-88092				FEE 2610' 660'	

18 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.
REFER TO ORIGINAL PLAT
Date of Survey
Signature and Seal of Professional Surveyor
Certificate Number

DISTRICT I
1035 E. French St., Sulte, NM 88440

DISTRICT II
211 South First, Artesia, NM 88210

DISTRICT III
1000 E. Grand St., Artesia, NM 87410

DISTRICT IV
2042 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised March 19, 1999
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name Indian Basin Morrow
Property Code	Property Name Pan Am Pardue ALZ Federal Com.	Well Number 2
OGED No. 025575	Operator Name Yates Petroleum Corporation	Elevation 3650

Surface Location

UL or lot No.	Section	Township	Range	Lot No.	Feet from the	North/South Line	Feet from the	East/West Line	County
0	22	21S	24E		660'	South	2610'	East	Eddy

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot No.	Feet from the	North/South Line	Feet from the	East/West Line	County				
<table border="1"> <tr> <td>Dedicated Acres 640</td> <td>Joint or Infill</td> <td>Consolidation Code</td> <td>Order No.</td> </tr> </table>										Dedicated Acres 640	Joint or Infill	Consolidation Code	Order No.
Dedicated Acres 640	Joint or Infill	Consolidation Code	Order No.										

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**

NM 89143			
NM 56350		NM 76944	
NM 88092		2610'	EE

OPERATOR CERTIFICATION


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

Cy Cowan
Signature
Cy Cowan
Printed Name
Regulatory Agent
Title
1/02/02
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.

Refer to Original Plat

Date Surveyed
Signature & Seal of Professional Surveyor

 Certificate No. 3640
 Surveyor's Name: Cy Cowan
 License No. 3640
 Surveyor's Company: COWAN SURVEYING COMPANY

Submit appropriate
District State L. copies
Fee Leas

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT I

P.O. Box 1980, Hobbs, NM 88240

DISTRICT II

P.O. Drawer DD, Artesia, NM 88210

DISTRICT III

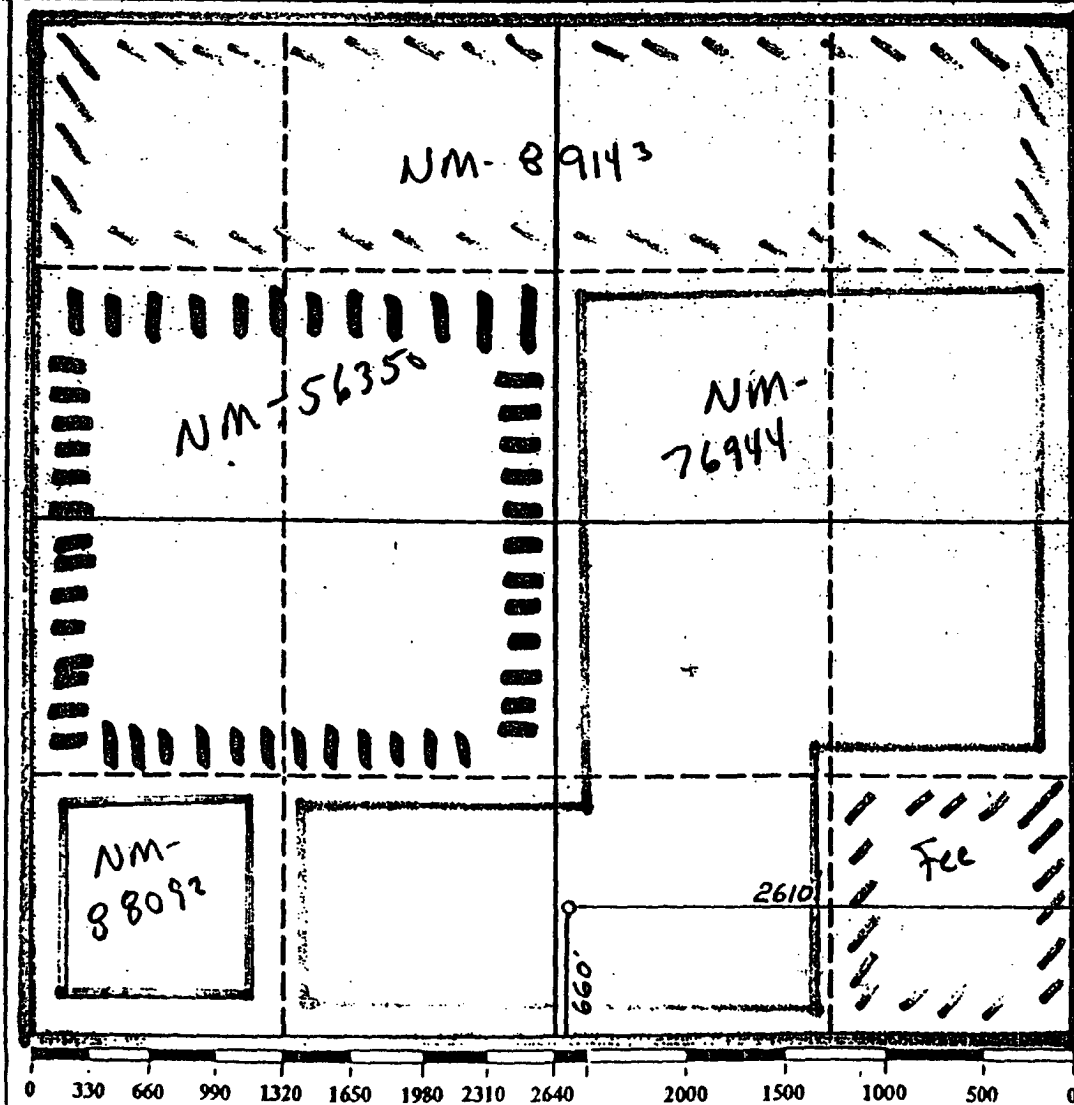
1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator YATES PETROLEUM CORPORATION			Lease PAN AM PARDUE ALZ FEDERAL COM		Well No. 2
Unit Letter 0	Section 22	Township 21 SOUTH	Range 24 EAST	County EDDY COUNTY, NM	
Actual Footage Location of Well: 2610 feet from the EAST line and 660 feet from the SOUTH line					
Ground level Elev. 3650.	Producing Formation Marrow		Pool Indian Hills (Marrow)	Dedicated Acreage: 640 Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communization, unitization, force-pooling, etc.?
☒ Yes ☐ No If answer is "yes" type of consolidation **Communization**
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 communization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, 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.

Signature **Ken Beardum**

Printed Name **KEN BEARDUM**

Position **Landman**

Company **Yates Pet. Corp**

Date **4-21-93**

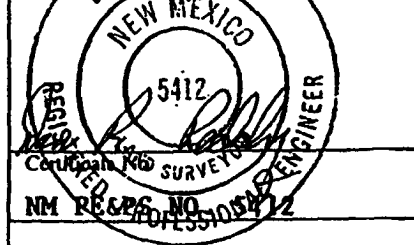
SURVEYOR CERTIFICATION

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

Date Surveyed

APRIL 3, 1993

Signature **W. E. D. D. Y**
Professional Surveyor



YATES PETROLEUM CORPORATION
Pan Am Pardue "ALZ" Federal Com. #2
 660' FSL and 2610' FEL
 Sec.22-T21S-R24E
 Eddy County, New Mexico

1. The estimated tops of geologic markers are as follows:

San Andres	872'
Glorietta	2469'
Bone Springs	3142'
Wolfcamp	7307'
Canyon	7593'
Lower Strawn	8632'
Atoka	8942'
Morrow	9480'
TD	10000'

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

Water: None Expected
 Oil or Gas: Canyon Morrow

3. Pressure Control Equipment: BOPE will be installed on the 9 5/8" casing and rated for 3000 BOP systems will be consistent with API RP 53. Pressure tests will be conducted before drilling out from under all casing strings which are set and cemented in place. Blowout Preventor controls will be installed prior to drilling the surface plug and will remain in use until the well is completed or abandoned. Preventors will be inspected and operated at least daily to ensure good mechanical working order, and this inspection recorded on the daily drilling report. See Exhibit B.

Auxiliary Equipment:

- A. Auxiliary Equipment: Kelly cock, pit level indicators, flow sensor equipment and a sub with full opening valve to fit the drill pipe and collars will be available on the rig floor in the open position at all times for use when kelly is not in use.

4. THE PROPOSED CASING AND CEMENTING PROGRAM:

A. Casing Program: (All New)

<u>Hole Size</u>	<u>Casing Size</u>	<u>Wt./Ft</u>	<u>Grade</u>	<u>Coupling</u>	<u>Interval</u>
17 1/2"	13 3/8"	48#	J-55	ST&C	300'
12 1/4"	9 5/8"	36#	J-55	ST&C	0-2800'
8 3/4"	7"	26#	N-80	LT&C	0-1500'
8 3/4"	7"	26#	J-55	LT&C	1500'-7200'
8 3/4"	7"	26#	N-80	LT&C	7200-9500'
8 3/4"	7"	26#	S-95	LT&C	9500-9950'

WITNESSES

Minimum Casing Design Factors: Collapse 1.125, Burst 1.0, Tensile Strength 1.8

B. CEMENTING PROGRAM:

Surface casing: 300 sx 'C' w/2% CaCl₂. Cement calculated to circulate.(YLD 1.32 WT 14.8).

Intermediate Casing: 1000 sx. Pacesetter Lite "C" w/1/4# Cellocel, 2% CaCl₂. (YLD 1.92 WT 12.7) + 250 SX."class C" w/2% CaCl₂. (YLD 1.32 WT 14.8) Cement circulated to circulate.

Production Casing: 600 sx Class H w/8# CSE, ¼ # Cellocel 6/10% CFR (YLD 1.76 WT 13.8) Top of cement calculated to 6500'.

2nd Stage: N/A

5. Mud Program and Auxiliary Equipment:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-300'	FW/Gel	8.4 - 8.9	30-34	N/C
300'-2800'	FW	8.4	28	N/C
2800'-6000'	FW	8.4	28	N/C
6000'-7400'	Cut Brine	9.0 - 9.3	28	N/C
7400'-TD	SW/Gel, Starch	9.2 - 9.6	31 - 34	<15cc

Sufficient mud material(s) to maintain mud properties, control lost circulation and contain a blow out will be available at the well site during drilling operations. Mud will be checked hourly by rig personnel.

6. EVALUATION PROGRAM:

Samples: 10' samples from 450' to TD.

Logging: CNL-LTD for TD to casing with GR-CNL up to surface; DLL from TD to casing with RXO from TD over select intervals.

Coring: As warranted.

DST's: As warranted.

7. Abnormal Conditions, Bottom hole pressure and potential hazards:

Anticipated BHP:

From: 0	TO: 300'	Anticipated Max. BHP: 110 PSI
From: 300	TO: 2800'	Anticipated Max. BHP: 1020 PSI
From: 2800'	TO: 9950'	Anticipated Max. BHP: 3620 PSI

Abnormal Pressures Anticipated: None

Lost Circulation Zones Anticipated: 0-2800.

H₂S Zones Anticipated: Possible in Canyon at 7500'.

Maximum Bottom Hole Temperature: 145 F

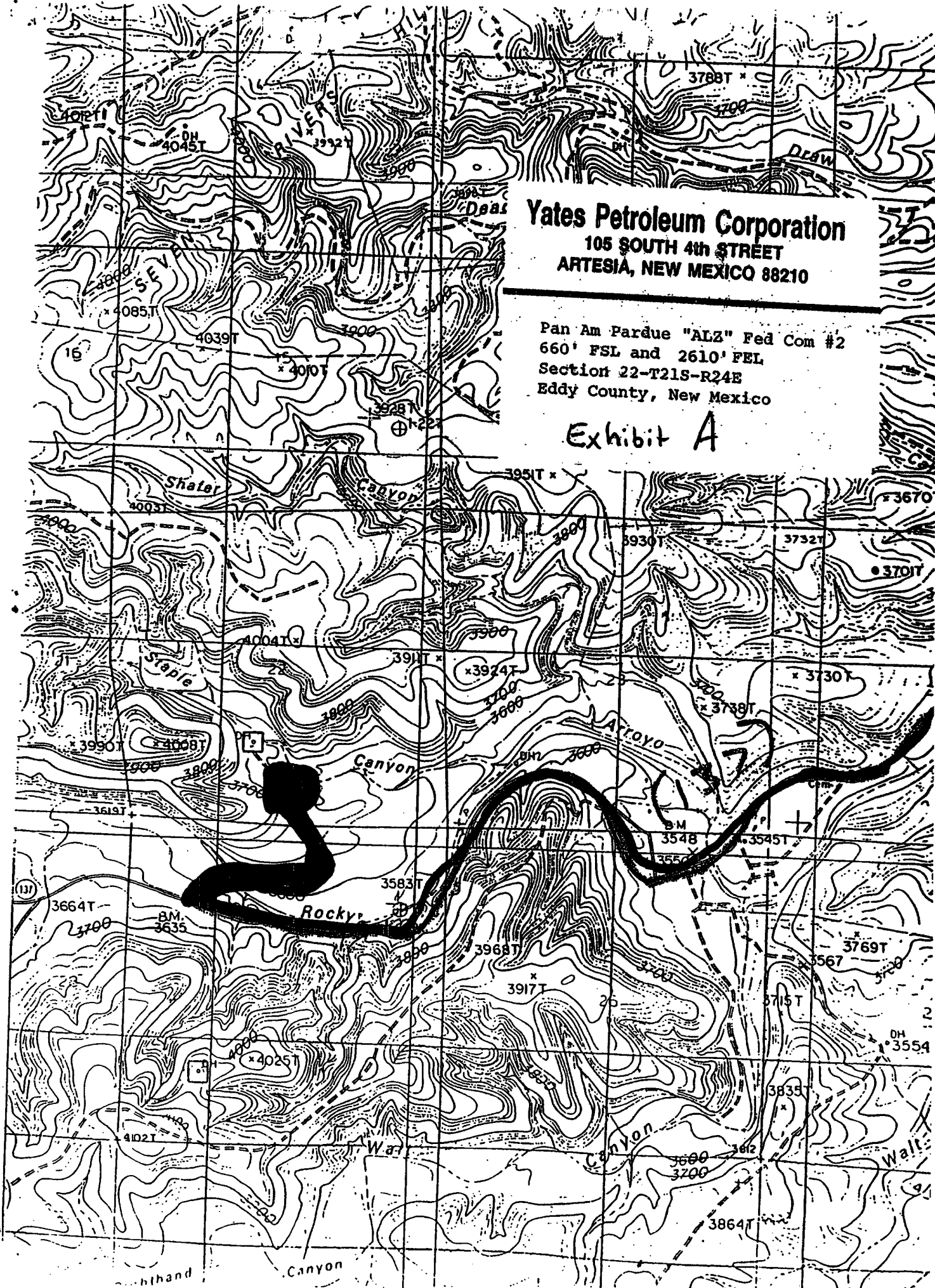
8. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 30 days to drill the well with completion taking another 30 days.

Yates Petroleum Corporation
105 SOUTH 4th STREET
ARTESIA, NEW MEXICO 88210

Pan Am Pardue "ALZ" Fed Com #2
660' FSL and 2610' FEL
Section 22-T21S-R24E
Eddy County, New Mexico

Exhibit A



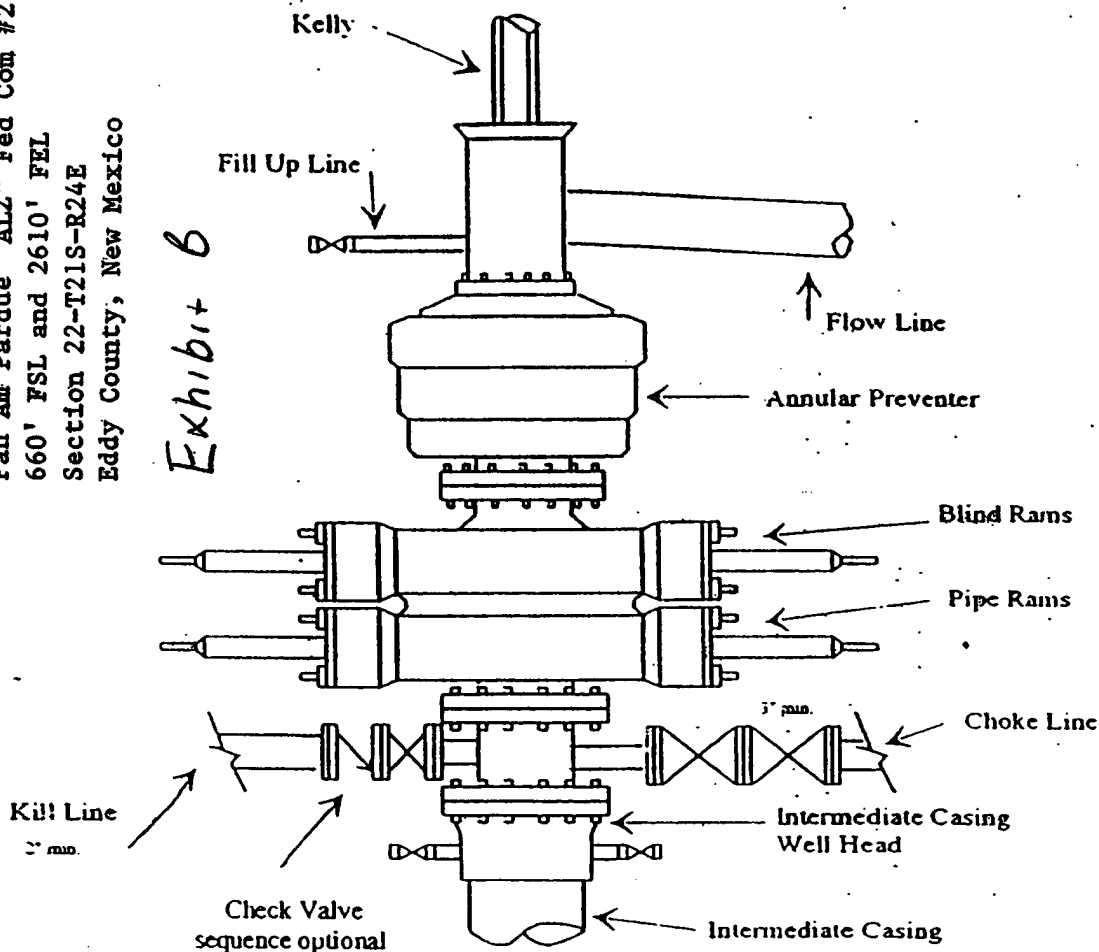
Yates Petroleum Corporation
105 SOUTH 4th STREET
ARTESIA, NEW MEXICO 88210

Pan Am Pardue "ALZ" Fed Com #2
 660' FSL and 2610' FEL
 Section 22-T21S-R24E
 Eddy County, New Mexico

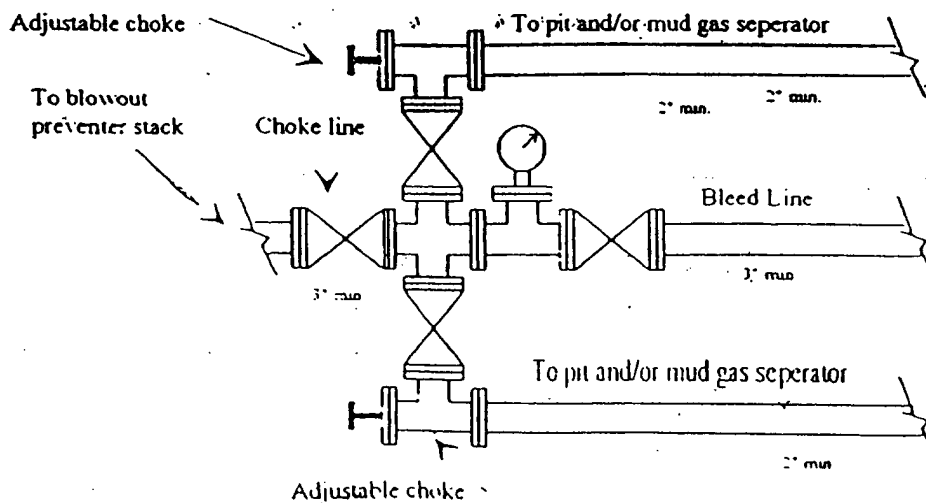
Exhibit B

Yates Petroleum Corporation
Typical 3,000 psi Pressure System
Schematic
Annular with Double Ram Preventer Stack

BOP-3



Typical 3,000 psi choke manifold assembly with at least these minimum features



Yates Petroleum Corporation

**105 S. Fourth Street
Artesia, NM 88210**

Hydrogen Sulfide (H₂S) Contingency Plan

For

Pan Am Pardue ALZ Federal Com. #2

**660' FSL, 2610' FEL
Sec-22, T-21S, R-24E
Eddy County NM**

Yates Petroleum Corporation Phone Numbers

YPC Office	(505) 748-1471
Pinson McWhorter/Operations Manager	(505) 748-4189
Darrel Atkins/Production Manager	(505) 748-4204
Ron Beasley/Prod Superintendent	(505) 748-4210
Al Springer/Drilling	(505) 748-4225
Paul Hanes/Prod. Foreman/Roswell	(505) 624-2805
Jim Krogman/Drilling Superintendent.....	(505) 748-4215
Artesia Answering Service	(505) 748-4302
(During non-office hours)	

Agency Call List

Eddy County (505)

Artesia

State Police	746-2703
City Police.....	746-2703
Sheriff's Office	746-9888
Ambulance	911
Fire Department	746-2701
LEPC (Local Emergency Planning Committee)	746-2122
NMOCD.....	748-1283

Carlsbad

State Police	885-3137
City Police.....	885-2111
Sheriff's Office	887-7551
Ambulance	911
Fire Department	885-2111
LEPC (Local Emergency Planning Committee).....	887-3798
US Bureau of Land Management.....	887-6544

New Mexico Emergency Response Commission (Santa Fe)	(505)476-9600
24 HR	(505) 827-9126
New Mexico State Emergency Operations Center.....	(505) 476-9635
National Emergency Response Center (Washington, DC)	...(800) 424-8802

Other

Boots & Coots IWC	1-800-256-9688 or (281) 931-8884
Cudd Pressure Control.....	(915) 699-0139 or (915) 563-3356
Halliburton	(505) 746-2757
B. J. Services.....	(505) 746-3569

Flight For Life -4000 24th St, Lubbock, TX	(806) 743-9911
Aerocare -Rr 3 Box 49f, Lubbock, TX	(806) 747-8923
Med Flight Air Amb 2301 Yale Blvd SE #D3, Albuq, NM	(505) 842-4433
S B Air Med Svc 2505 Clark Carr Loop SE, Albuq, NM	(505) 842-4949

Emergency Procedures

In the case of a release of gas containing H₂S, the first responder(s) must isolate the area and prevent entry by other persons into the 100 ppm ROE. Additionally the first responder(s) must evacuate any public places encompassed by the 100 ppm ROE. First responder(s) must take care not to injure themselves during this operation. Company and/or local officials must be contacted to aid in this operation. Evacuation of the public should be beyond the 100 ppm ROE.

All responders must have training in the detection of H₂S, measures for protection against the gas, equipment used for protection and emergency response. Additionally, responders must be equipped with H₂S monitors and air packs in order to control the release. Use the "buddy system" to ensure no injuries during the response.

Ignition of Gas Source

Should control of the well be considered lost and ignition considered, take care to protect against exposure to Sulfur Dioxide (SO₂). Intentional ignition must be coordinated with the NMOCD and local officials. Additionally the NM State Police may become involved. NM State Police shall be the Incident Command on scene of any major release. Take care to protect downwind whenever there is an ignition of the gas

Characteristics of H₂S and SO₂

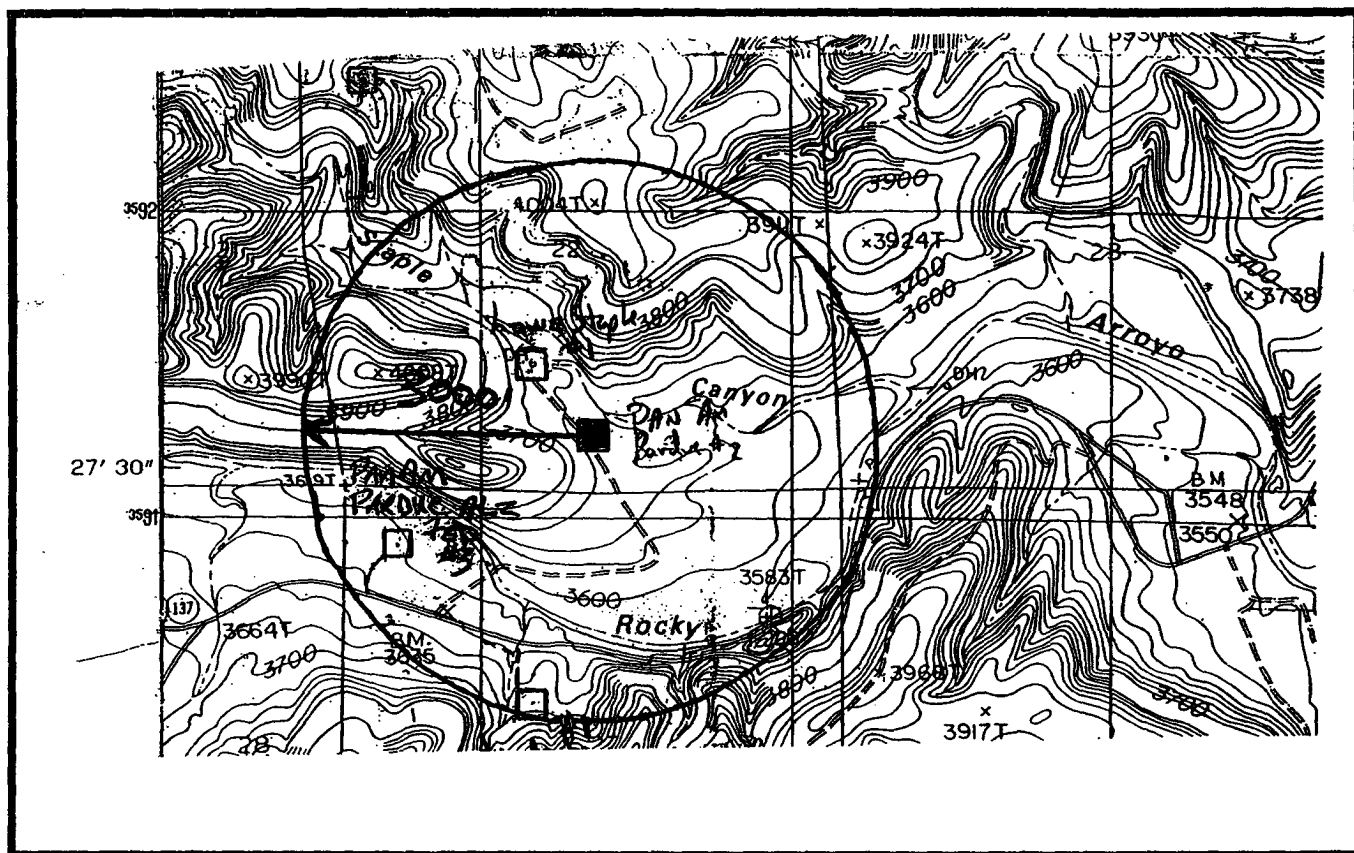
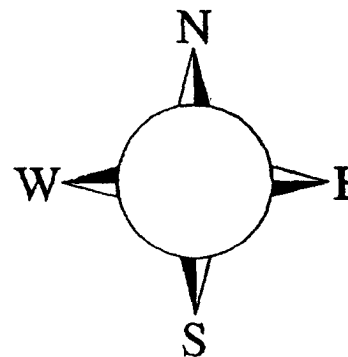
Common Name	Chemical Formula	Specific Gravity	Threshold Limit	Hazardous Limit	Lethal Concentration
Hydrogen Sulfide	H ₂ S	1.189 Air = 1	10 ppm	100 ppm/hr	600 ppm
Sulfur Dioxide	SO ₂	2.21 Air = 1	2 ppm	N/A	1000 ppm

Contacting Authorities

YPC personnel must liaison with local and state agencies to ensure a proper response to a major release. Additionally, the OCD must be notified of the release as soon as possible but no later than 4 hours. Agencies will ask for information such as type and volume of release, wind direction, location of release, etc. Be prepared with all information available. The following call list of essential and potential responders has been prepared for use during a release. YPC Company response must be in coordination with the State of New Mexico's 'Hazardous Materials Emergency Response Plan' (HMER)

Pan Am Pardue ALZ Federal. Com. #2

This is an open drilling site. H₂S monitoring equipment and emergency response equipment will be used within 500' of zones known to contain H₂S, including warning signs, wind indicators and H₂S monitor.



Assumed 100 ppm ROE = 3000

100 ppm H₂S concentration shall trigger activation of this plan.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Yates Petroleum Corporation
Well Name & No. Pan Am Pardue ALZ Federal Com #2 - RESUBMITTAL
SH Location: 660' FSL, 2610' FEL, Section 22, T. 21 S., R. 24 E., Eddy County, New Mexico
Lease: NM-76944

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County in sufficient time for a representative to witness:

A. Well spud

B. Cementing casing: 13-3/8 inch 9-5/8 inch 7 inch

C. BOP tests

2. A Hydrogen Sulfide (H₂S) Drilling Operation Contingency Plan shall be activated prior to drilling into the Canyon 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.

II. CASING:

1. The 13-3/8 inch surface casing shall be set at approximately 300 feet and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

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

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

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 9-5/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 3000 psi. A 2000 psi system may be used to drill the intermediate section of the well if necessary.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.
 - The tests shall be done by an independent service company.
 - The results of the test shall be reported to the appropriate BLM office.
 - Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
 - Testing must be done in a safe workman-like manner. Hard line connections shall be required.

IV. DRILLING MUD:

Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the Wolfcamp formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

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

12/29/2005

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