

District I
1625 N. French Dr., Hobbs, NM 88040
District II
1301 W. Grand Avenue, Artes
District III
1000 Rio Brazos Road, Aztec
District IV
1220 S. St. Francis Dr., Santa

State of New Mexico
Oil and Natural Resources

Form C-101
May 27, 2004

As a condition of approval, if during pit construction water is encountered or if water seeps in pits after construction the **OCD MUST BE CONTACTED IMMEDIATELY!**

Regulation Division
St. Francis Dr.
NM 87505
RECEIVED
MAY 15 2006

Submit to appropriate District Office
 AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

¹ Operator Name and Address Nadel and Gussman Permian, LLC 601 N. Marienfeld Suite 508 Midland, TX 79701		² OGRID Number 155615
³ Property Code 35699	⁴ Property Name Bond Fee	⁵ API Number 34861
⁹ Proposed Pool 1 Undesignated Bass Morrow		¹⁰ Proposed Pool 2

7 Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	20	21 S	28 E		660	North	1,650	West	Eddy

8 Proposed 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

Additional Well Information

¹¹ Work Type Code N	¹² Well Type Code G	¹³ Cable/Rotary R	¹⁴ Lease Type Code P	¹⁵ Ground Level Elevation 3,194'
¹⁶ Multiple No	¹⁷ Proposed Depth 12,400'	¹⁸ Formation Morrow	¹⁹ Contractor Paterson - UTI	²⁰ Spud Date 05/24/06
Depth to Groundwater: 50' or Less 20 points		Distance from nearest fresh water well: 1,000' or Less		Distance from nearest surface water: Less than 1,000'
Pit: Liner: Synthetic <input checked="" type="checkbox"/> 20_mils thick Clay <input type="checkbox"/>		Pit Volume: 15,000_bbls		Drilling Method:
Closed-Loop System <input type="checkbox"/>		Fresh Water <input checked="" type="checkbox"/> Brine <input checked="" type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>		

21 Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17 1/2"	13 3/8"	48# H-40	500'	300sx	Circ. to Surf.
12 1/4"	9 5/8"	40# N-80	3,300' @ 2900'	600sx	Circ. to Surf.
8 3/4"	5 1/2"	17# & or 20# HCP-110	12,400'	1,550sx	* TOC @ 9,000'

²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Nadel and Gussman Permian, LLC proposes to drill the Bond Fee #2. A mud gas separator will be installed and tested prior to drilling the Wolfcamp. A BOP will be installed on the 9 5/8" and tested. Cement to cover all water, oil and gas producing zones. NGP will notify NMOCD of spud date and cementing times so the surface and intermediate casing strings could be witnessed. No H₂S is expected but a contingency is attached and equipment will be ready upon drilling out surface.

Fresh Water Mud in @ 2900'

Please Note &
CEMENT TO COVER ALL
OIL, GAS AND WATER
BEARING ZONES *

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines , a general permit , or an (attached) alternative OCD-approved plan .

Signature: *Josh Fernau*

Printed name: Josh Fernau

Title: Staff Engineer

E-mail Address: joshf@naguss.com

Date: 05/12/06

Phone: 432-682-4429

OIL CO
Approved by:

[Signature]

BRYAN G. ARRANT
DISTRICT II GEOLOGIST

Title:

Approval Date: **MAY 16 2006**

Expiration Date: **MAY 16 2007**

Conditions of Approval:

**NOTIFY OCD OF SPUD &
TIME TO WITNESS
CEMENTING OF SURFACE &
INTERMEDIATE CASING**

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	Pool Code 71640	Pool Name Bass; McNew
Property Code	Property Name BOND FEE	Well Number 2
OGRID No.	Operator Name NADEL & GUSSMAN PERMIAN, LLC.	Elevation 3194'

Surface Location

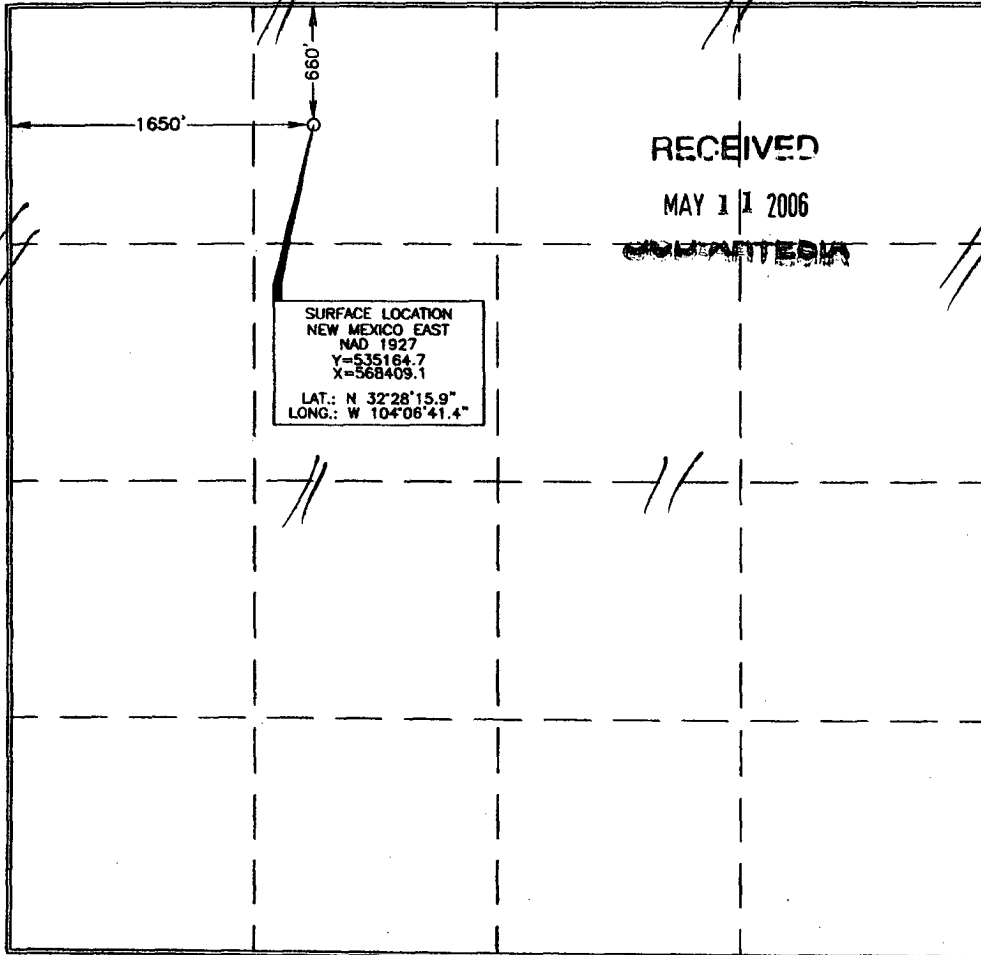
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	20	21 SOUTH	28 EAST, N.M.P.M.		660	NORTH	1650	WEST	EDDY

Bottom Hole Location if Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 320	Joint or Infill	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.



RECEIVED
MAY 11 2006
EDDY ARTESIA

OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location 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.

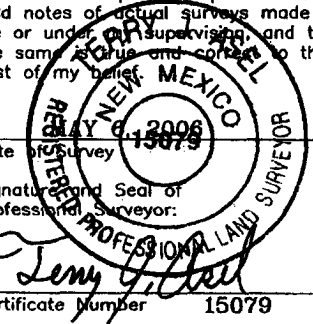
Josh Fernau 05/09/06
Signature Date

Josh Fernau
Printed Name

SURVEYOR CERTIFICATION

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

Date of Survey: MAY 8 2006
Signature and Seal of Professional Surveyor:
Jerry G. Bell
Certificate Number 15079



NADEL AND GUSSMAN PERMIAN, L.L.C.
601 N. Marienfeld, Suite 508
Midland, TX 79701
(432) 682-4429 (Office)
(432) 682-4325 (Fax)

05/09/06

Mr. Bryan Arrant
District 2 Geologist
New Mexico Oil and Gas Division
1301 West Grand Avenue
Artesia, NM 88210

Re: Bond Fee #2
660' FNL & 1,650' FWL
Unit Letter C, Sec. 20-T21S-R28E
Eddy, NM
Rule 118 H2S Exposure

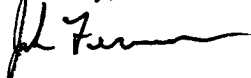
RECEIVED
MAY 11 2006
UW-ARTESIA

Dear Mr. Arrant,

Nadel and Gussman Permian have evaluated this well and we do not expect to encounter hydrogen sulfide. However, we will employ a third party monitoring system. We will begin monitoring prior to drilling out the surface casing and will continue monitoring the remainder of the well.

Please contact me if you have any additional questions.

Sincerely,



Josh Fernau
Staff Engineer

Proposed Mud Program
Casing Design



13 3/8" Surface Casing @ 500'
 9 5/8" Intermediate Casing @ ~~3,000'~~ @ 29cc'
 5 1/2" Production Casing @ 12,400'

Recommended Mud Properties

<u>Depth</u>	<u>Mud Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
Spud	8.6 – 8.7	32 – 34	No Control
500'	8.9 – 9.2	23 – 34	No Control

Set 13 3/8" Surface Casing at 500'. Drill out w/ Fresh Water

500'	8.4 – 8.4	28 – 30	No Control
3,000' @ 29cc'	8.4 – 8.4	28 – 30	No Control

Set 9 5/8" Intermediate Casing at ~~3,000'~~ @ 29cc'. Drill out with Fresh Water.

3,000' @ 29cc'	8.4 – 8.4	28 – 29	No Control
6,100'	8.4 – 8.5	28 – 29	No Control
9,000'	8.4 – 8.5	28 – 29	No Control
9,500'	9.2 – 9.4	28 – 29	No Control
10,000'	9.4 – 9.6	28 – 29	No Control
10,700'	9.4 – 9.6	45 – 50	< 12
12,400'	9.4 – 9.6	45 – 50	< 12

Recommended Mud Program By Casing Interval

Surface Hole 0 – 500'

Spud w/ Gel / Lime slurry, mixing for a 32 – 34 viscosity. Lost circulation is common in this area. Should lost circulation occur and cannot be re-gained w/ one LCM pill, dry drill to total depth.

Intermediate Hole 500' – ~~3,000'~~ @ 29cc'

Drill out f/ under the surface casing w/ fresh water, circulating through the inner reserve pit to allow maximum time for settling drilled-solids.

Severe lost circulation is possible while drilling this interval. Seepage can be controlled q/ addition of paper. Should complete loss of returns occur while drilling, we recommend pulling up above the loss zone to avoid differential sticking and spotting a 100 to 200 barrel pill containing 15 – 25 lb / bbl lcm material. Spot the pill f/ above at a reduced pump rate before returning to bottom to commence drilling operations. If lost circulation is not regained w/ one or two lcm pills, some blind drilling may be required. If partial returns are maintained, use only brine f/ volume to avoid severe washouts.

Open Hole 3,000' – 12,400'

Drill out f/ under the intermediate casing w/ fresh water, circulating through the outer reserve pit to, once again, allow maximum time f/ settling drilled – solids. A flocculent MF – 55 can be used to aid in dropping solids, providing a clear fluid and maximum penetration rates.

At a depth 10,600' or the top of the Strawn, we recommend displacing w/ brine and mudding – up w/ an XCD Polymer / MF – 55 system to achieve the following properties:

Mud Weight 9.2 – 9.4

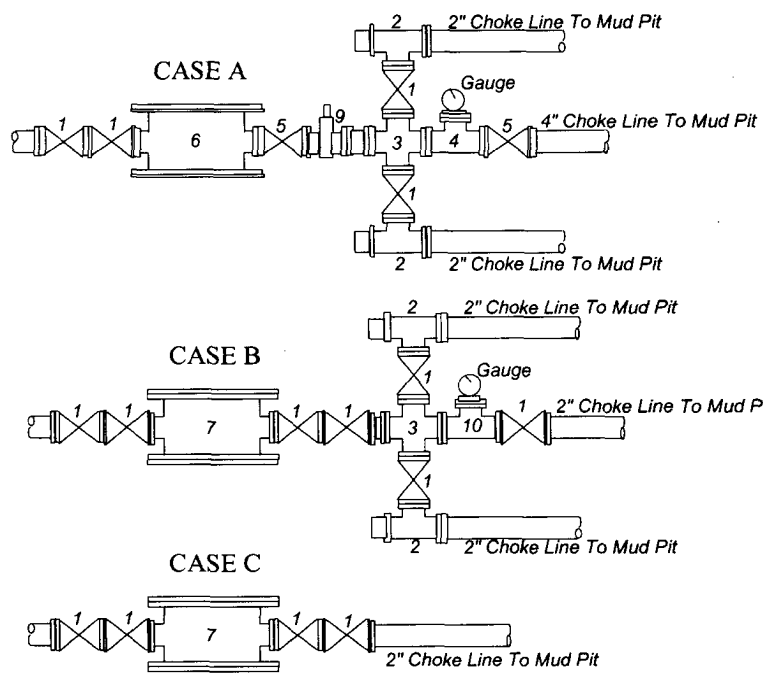
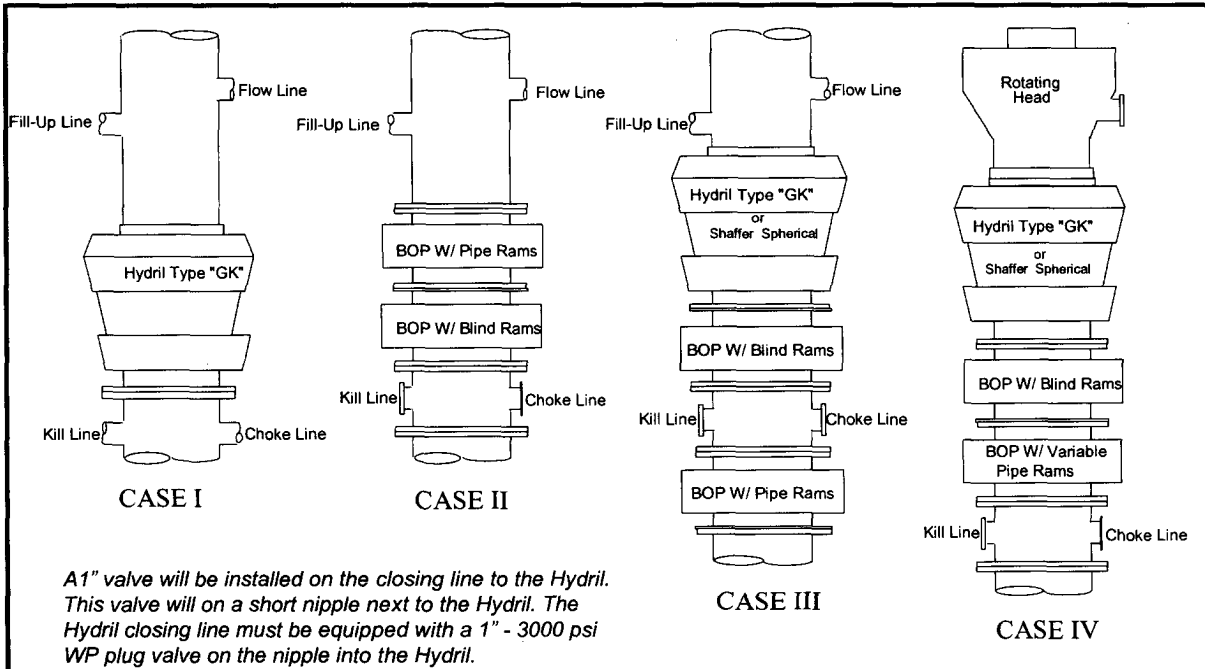
Viscosity 32 – 34

Fluid Loss < 12

Hydrogen Sulfide Drilling Operations Plan

1. Company and Contract personnel admitted on location should be trained by a qualified H₂S safety instructor to the following:
 - A. Characteristics of H₂S.
 - B. Physical Effects and Hazards.
 - C. Proper Use of Safety Equipment and Life Support Systems.
 - D. Principle and Operation of H₂S Detectors, Warning System and Briefing.
 - E. Evacuation Procedure, Routes and First Aid.
 - F. Proper Use of 30 minute Pressure Demand Air Pack.
2. H₂S Detection and Alarm Systems
 - A. H₂S Detectors and Audio Alarm System to be Located at Bell Nipple, End of Blooie Line (mud pit) and on Derrick floor or doghouse.
3. Windsock and/or Wind Streamers
 - A. Windsock at Mud Pit Area Should be High Enough to be Visible.
 - B. Windsock at Briefing Area Should be High Enough to be Visible.
 - C. There Should be a Windsock at Entrance to Location.
4. Condition Flags and Signs
 - A. Warning Sign on Access Road to Location.
 - B. Flags to be Displayed on Sign at Entrance to Location.
 1. Green Flag, Normal Safe Condition.
 2. Yellow Flag, Indicates Potential Pressure and Danger.
 3. Red Flag, Danger H₂S Present in Dangerous Concentration Only Emergency Personnel Admitted to Location.
5. Well Control Equipment
 - A. See Attached Diagram.
6. Communication
 - A. While Working Under Masks Chalkboards Will be Used for Communication.
 - B. Hand Signals will be Used Where Chalk Board is Inappropriate.
 - C. Two Way Radio or Cell Phone will be Used to Communicate off Location in Case of Available at Most Drilling Foreman's Trailer or Living Quarters.
7. Drillstem Testing
 - A. Exhausts will be Watered.
 - B. Flare Line will be Equipped with an Electric Igniter or a propane pilot light in case gas reaches the surface.
 - C. If Location is near any Dwelling a Closed DST will be Performed.
8. Drilling Contractor Supervisor will be Required to be Familiar with the Effects H₂S has on tubular goods and other mechanical equipment.
9. If H₂S Encountered, Mud system will be Altered if Necessary to Maintain Control of Formation. A Mud Gas Separator will be Brought into Service Along with H₂S Scavengers if Necessary.

Nadel and Gussman Permian MINIMUM BLOWOUT PREVENTER REQUIREMENTS



BOP SIZE	BOP CASE	WORKING PRESSURE	CHOKE CASE
15 1/8"	II	5,000 #	A

***Rotating head required**

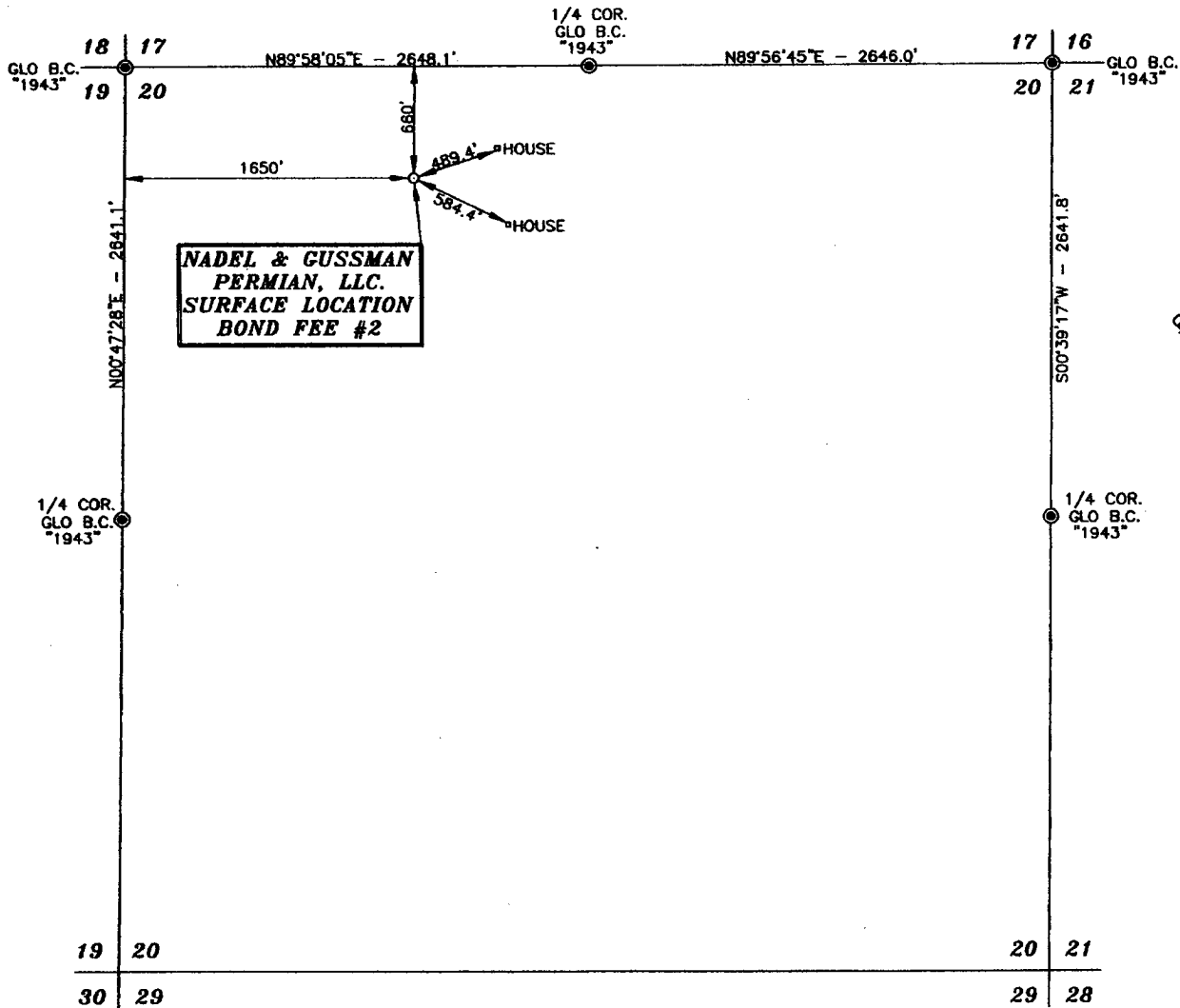
Bradenhead : _____
Mfr: _____
Size: _____ Type: _____

- Legend**
1. 2" flanged all steel valve must be either Cameron "F", Halliburton Low Torque or Shaffer Flo-Seal.
 2. 2" flanged adjustable chokes, min. 1" full opening & equipped with hard trim.
 3. 4" x 2" flanged steel cross.
 4. 4" flanged steel tee.
 5. 4" flanged all steel valve (Type as in no. 1).
 6. Drilling Spool with 2" x 4" flanged outlet.
 7. Drilling Spool with 2" x 2" flanged outlet.
 8. 2" x 2" flanged steel cross.
 9. 4" pressure operated gate valve.
 10. 2" flanged steel tee.

Notes

Choke manifold may be located in any convenient position. Use all steel fittings throughout. Make 90° turns with bull plugged tees only. No field welding will be permitted on any of the components of the choke manifold and related equipment upstream of the chokes. The choke spool and all lines and fittings must be at least equivalent to the test pressure of the preventers required. Independent closing control unit with clearly marked controls to be located on derrick floor near driller's position.

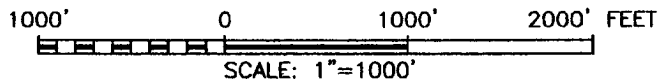
SECTION 20, TOWNSHIP 21 SOUTH, RANGE 28 EAST, N.M.P.M.,
EDDY COUNTY NEW MEXICO



Basis of Bearings - GPS Geodetic Measurements
NM East Zone (83) North American Datum of 1983

LEGEND

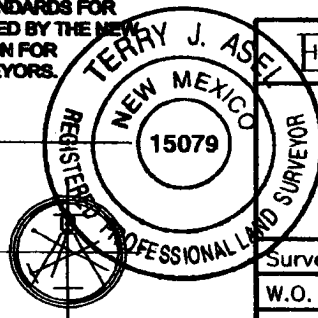
● - DENOTES FOUND MONUMENT AS NOTED



SURVEYORS CERTIFICATE

I, TERRY J. ASEL, NEW MEXICO PROFESSIONAL SURVEYOR NO. 15079, DO HEREBY CERTIFY THAT I CONDUCTED AND AM RESPONSIBLE FOR THIS SURVEY, THAT THIS SURVEY IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF, AND MEETS THE "MINIMUM STANDARDS FOR SURVEYING IN NEW MEXICO" AS ADOPTED BY THE NEW MEXICO STATE BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS AND SURVEYORS.

Terry J. Asel
Terry J. Asel N.M. R.P.S. No. 15079



Asel Surveying
& Consulting

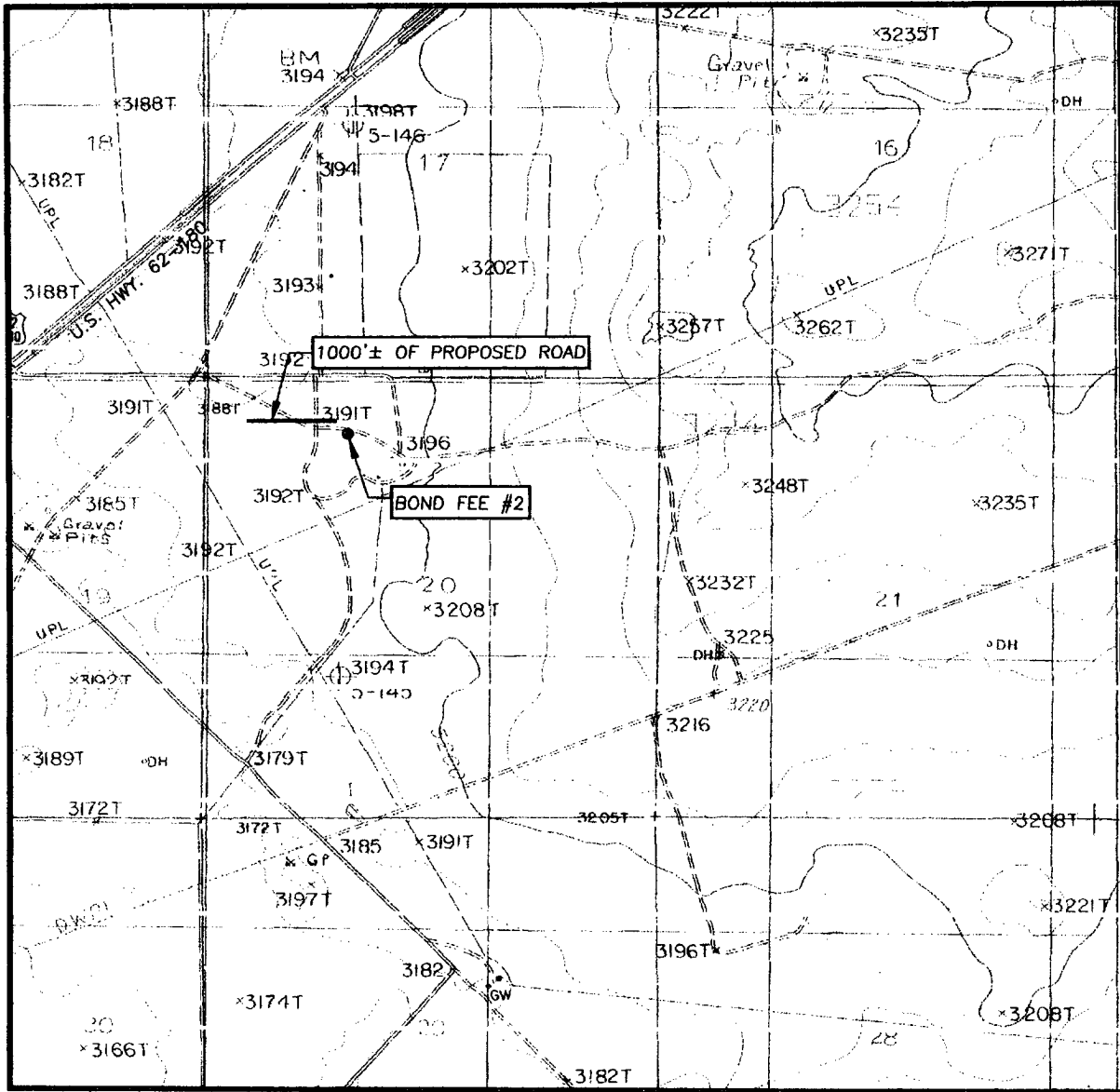
P.O. BOX 393 - 310 W. TAYLOR
HOBBS, NEW MEXICO - 505-393-9146

EOG RESOURCES, INC.

BOND FEE #2
IN SECTION 20, TOWNSHIP 21 SOUTH,
RANGE 28 EAST, N.M.P.M., EDDY COUNTY,
NEW MEXICO

Survey Date: 5/6/06	Sheet 2 of 4 Sheets
W.O. Number: 060506WL	Drawn By: LA Rev:
Date: 5/8/06	060506WL.DWG Scale: 1"=1000'

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
INDIAN FLATS, N.M. - 10'

SEC. 20 TWP. 21-S RGE. 28-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 660' FNL & 1650' FWL

ELEVATION 3194'

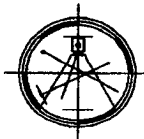
OPERATOR NADEL & GUSSMAN
PERMIAN, LLC

LEASE BOND FEE

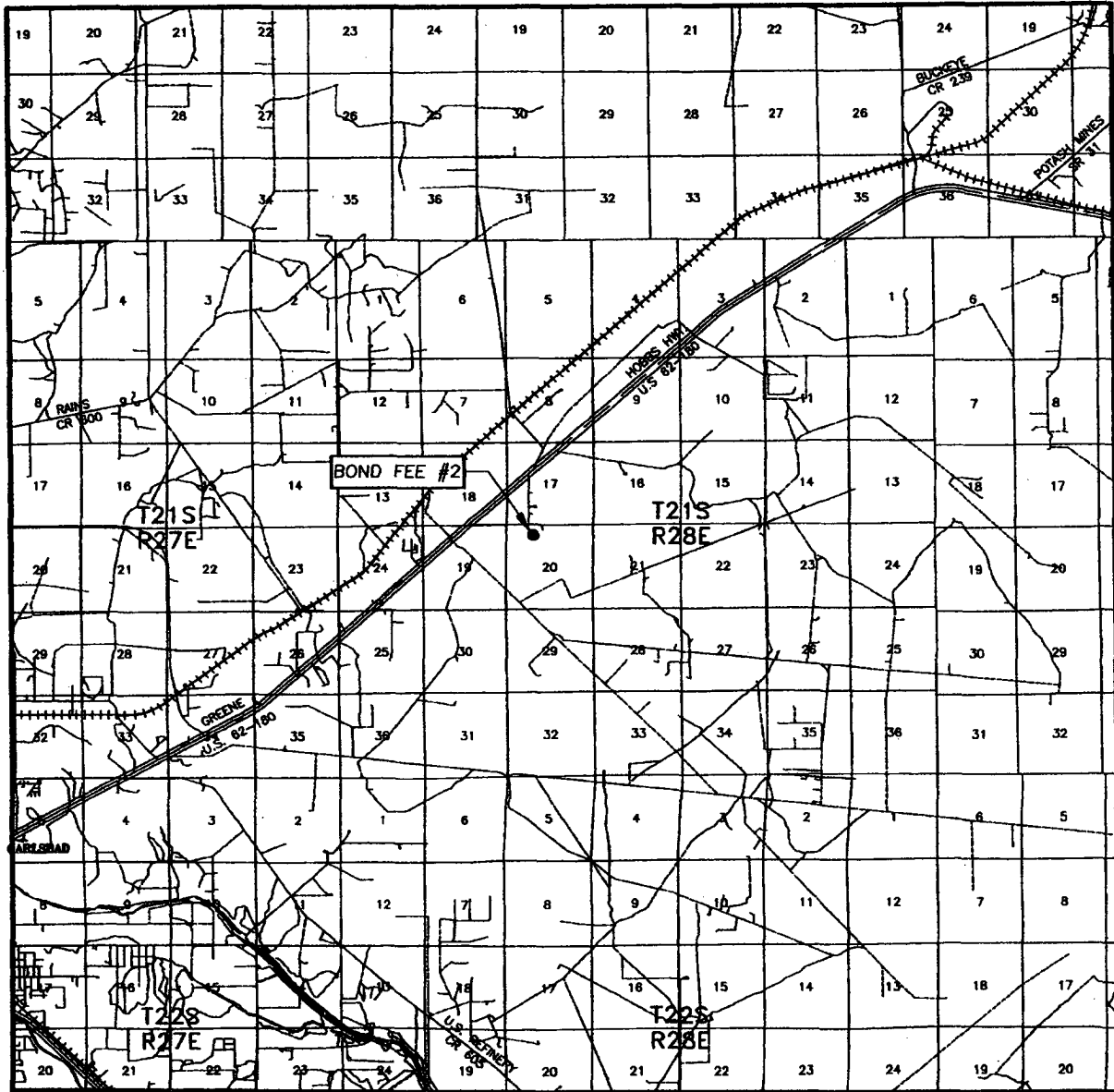
U.S.G.S. TOPOGRAPHIC MAP
INDIAN FLATS, N.M.

Asel Surveying
& Consulting

P.O. BOX 393 - 310 W. TAYLOR
HOBBS, NEW MEXICO - 505-393-9146



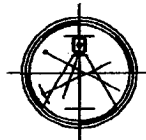
VICINITY MAP

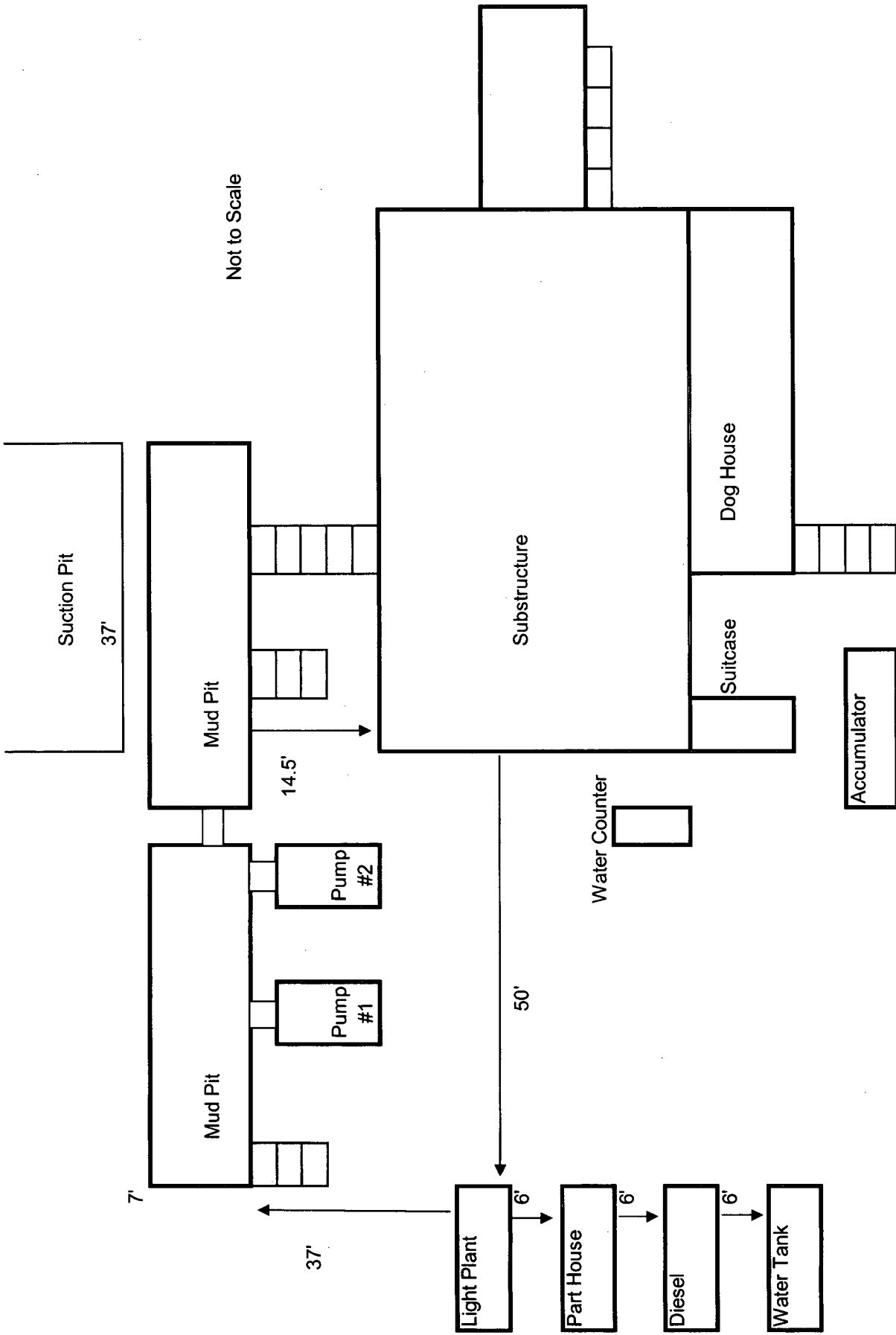


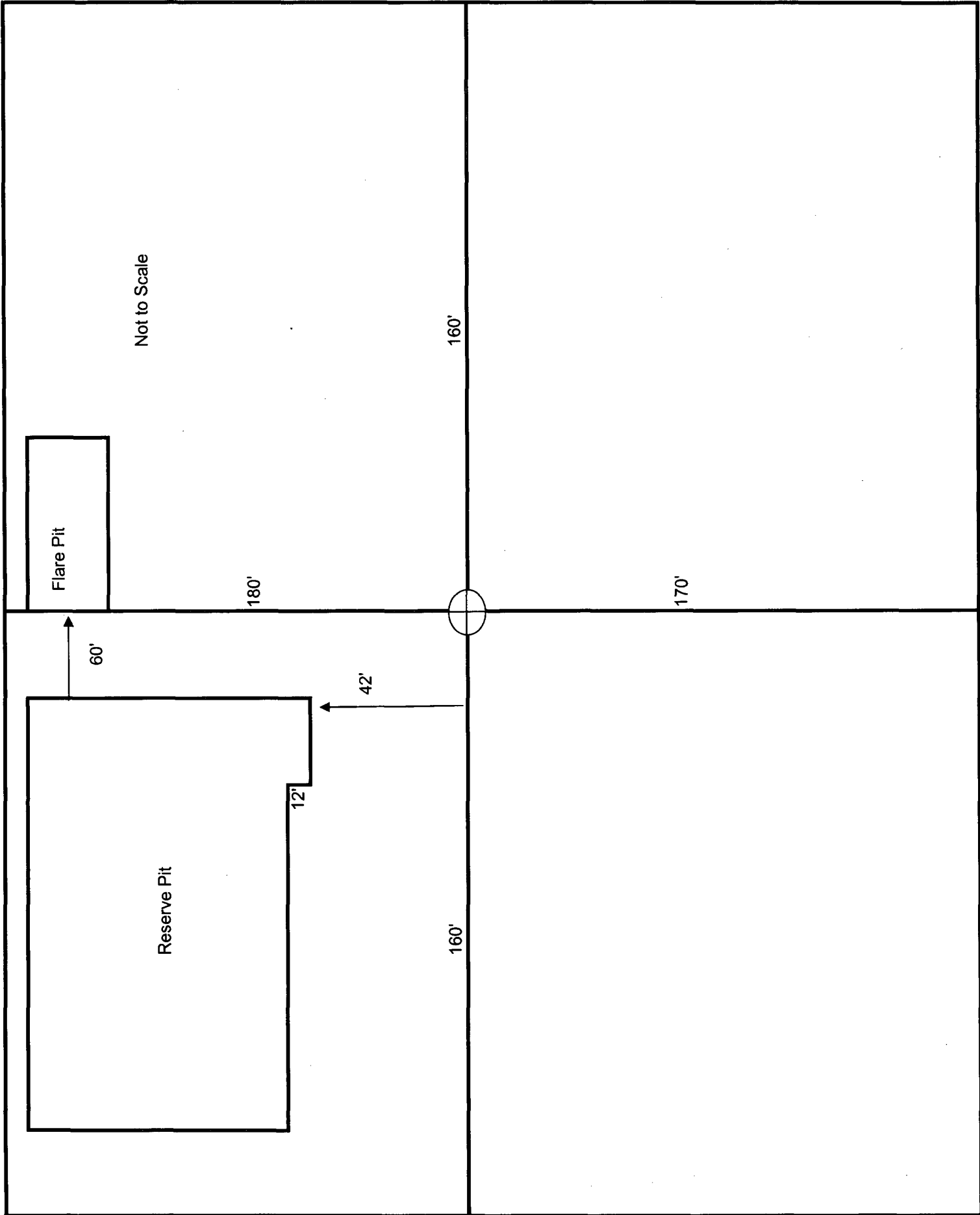
SCALE: 1" = 2 MILES

SEC. 20 TWP. 21-S RGE. 28-E
 SURVEY N.M.P.M.
 COUNTY EDDY
 DESCRIPTION 660' FNL & 1650' FWL
 ELEVATION 3194'
 OPERATOR NADEL & GUSSMAN PERMIAN, LLC
 LEASE BOND FEE

Asel Surveying
 & Consulting
 P.O. BOX 393 - 310 W. TAYLOR
 HOBBS, NEW MEXICO - 505-393-9146







Not to Scale

Flare Pit

Reserve Pit

60'

12'

42'

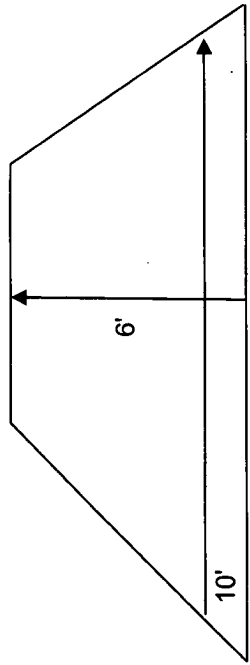
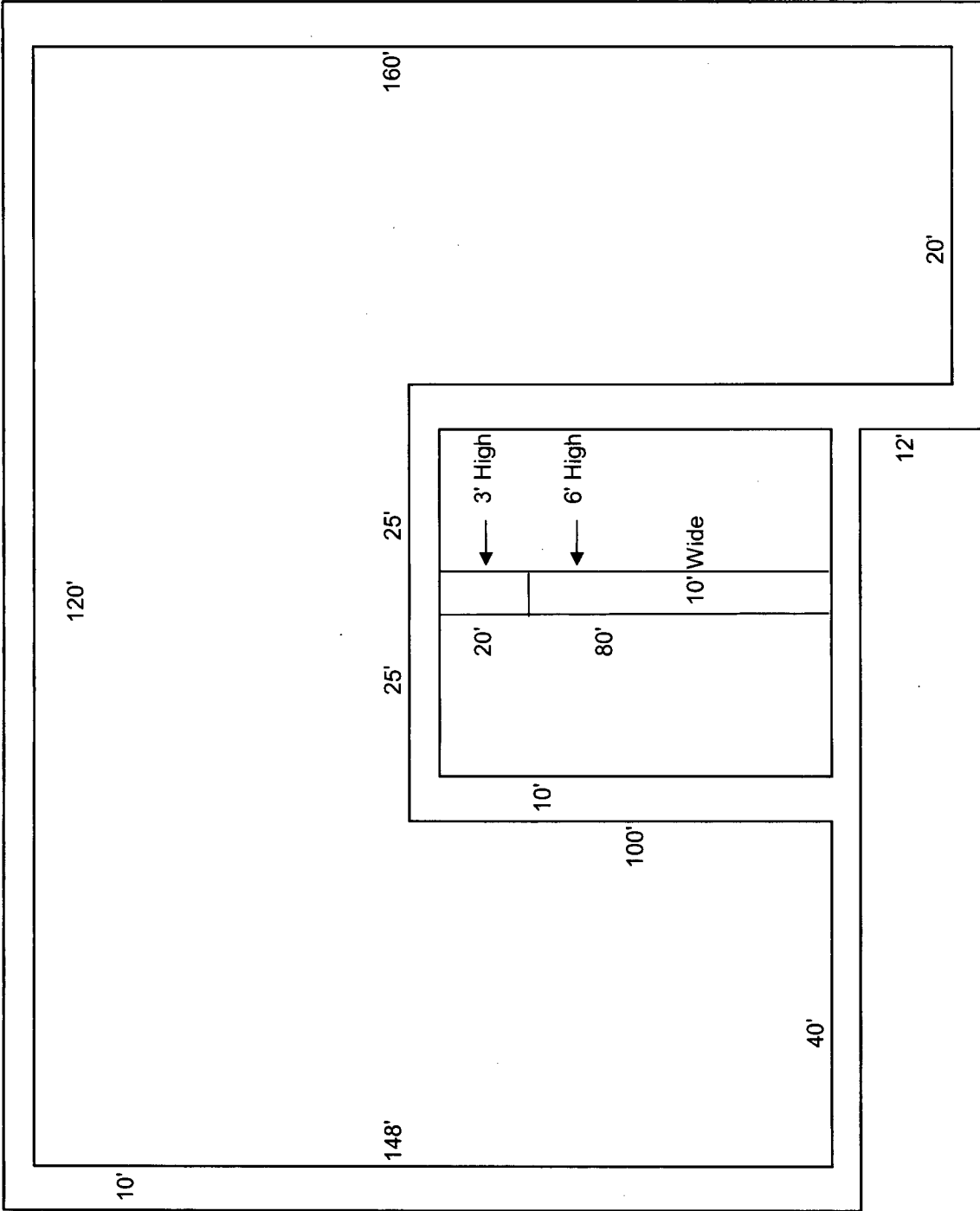
180'

160'

160'

170'

Not to Scale





NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

May 16, 2006

Nadel & Gussman Permian, LLC
601 N. Marienfeld, Suite 508
Midland, TX 79701
Attn: Josh Fernau or To Whom It May Concern

**RE: Condition of Approval for Nadel & Gussman Permian, LLC:
Application to drill the Bond Fee # 1, that is to be located in Unit C of Section 20, Township
21 South Range 28 East, Eddy County, NM
API # 30-015-34861**

Dear Mr. Fernau,

In regards to the above noted well, the New Mexico Oil Conservation Division (NMOCD) has approved said application to drill the above noted well. A condition of approval (in part) is for representatives with Nadel & Gussman Permian, LLC to verify levels of chlorides in the drilling mud (every 100') from the flow line. Chloride readings from the drilling mud are to be taken after surface casing is set and continue to the setting depth of the intermediate casing which is to be @ 2900'. Results of these tests are to be submitted to the NMOCD office in Artesia before drilling to total depth of the well.

The NMOCD also notes your detailed mud program and **only fresh water mud** is to be used in drilling the Capitan Reef section of the well bore.

Please call me if you or other staff members with Nadel & Gussman Permian, LLC have any questions regarding this matter.

Respectfully yours,

Bryan G. Arrant
Petroleum Engineer Specialist/NMOCD-District II
505-748-1283 ext. 103
CC: Well file