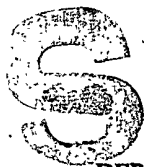


OCD-ARTESIA

ATS-07-424

968

Form 3160-3
(September 2001)

OCD-ARTESIA
UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

HIGH CAVEKARST

FORM APPROVED
 OMB No. 1004-0136
 Expires January 31, 2004

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NMLC050797	
1b. Type of Well: <input type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name N/A	
2. Name of Operator Apollo Energy, L.P. CAPTAN CONTROLLED WATER BASIN		7. If Unit or CA Agreement, Name and No. NMNM010194	
3a. Address 6363 Woodway, Suite 1100, Houston TX 77057		8. Lease Name and Well No. 303506 Russell USA# 71	
3b. Phone No. (include area code) (337)-502-5227		9. API Well No. 30-015-36104	
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 1980' From the West Line and 1530' From the North Line At proposed prod. zone Same UNORTHODOX		10. Field and Pool, or Exploratory Russell Yates 52820	
14. Distance in miles and direction from nearest town or post office* 8 miles North/Northeast of Carlsbad, New Mexico LOCATION		11. Sec., T., R., M., or Blk. and Survey or Area Sec. 13-20S-28E	
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1530'	16. No. of Acres in lease 1200 Acres	17. Spacing Unit dedicated to this well 320 Acres	
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 167.6'	19. Proposed Depth 1200'	20. BLM/BIA Bond No. on file NMB000458	
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3252'	22. Approximate date work will start* July 1st, 2007	23. Estimated duration 7 - 14 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 officer. |

25. Signature 	Name (Printed/Typed) Scott St. John	Date 6/19/07
Title Agent for Apollo Energy, L.P.		
Approved by (Signature) /s/ James Stovall	Name (Printed/Typed) James Stovall	Date JUL 20 2007
Title Office		

Application approval does not warrant or certify the 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 TWO YEARS

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)

SUBJECT TO LIKE APPROVAL BY STATE

**SEE ATTACHED FOR
 CONDITIONS OF APPROVAL**

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

WEX - R - 12887

DISTRICT I

1625 N. French Dr., Hobbs, NM 88240

State of New Mexico

Form C-102

DISTRICT II

1301 W. Grand Avenue, Artesia, NM 88210

Energy, Minerals, and Natural Resources Department

Revised October 12, 20

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

OIL CONSERVATION DIVISION

Submit to Appropriate District 0

State Lease - 4 cc

Fee Lease - 3 cc

1220 South St. Francis Dr.

Santa Fe, New Mexico 87505

DISTRICT IV

1220 S. St. Francis Dr., Santa Fe, NM 87505

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number	² Pool Code	³ Pool Name
⁴ Property Code	⁵ Property Name RUSSELL USA	⁶ Well Number 71
⁷ GRID No.	⁸ Operator Name APOLLO ENERGY, L.P.	⁹ Elevation 3252'

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
F	13	20 SOUTH	28 EAST, N.M.P.M.		1530'	NORTH	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

¹² Dedicated Acres	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.

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

<div data-bbox="64 1032 1039 1787"> </div> <div data-bbox="292 1808 941 1915"> <p><i>Exhibit A - Well Location and Acreage Dedication Plat</i></p> </div>	<div data-bbox="1055 1032 1485 1510"> <p>¹⁷ OPERATOR CERTIFICATION</p> <p>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 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.</p> <p>Signature _____ Date _____</p> <p>Printed Name _____</p> </div> <div data-bbox="1055 1521 1485 2021"> <p>¹⁸ SURVEYOR CERTIFICATION</p> <p>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.</p> <p>MAY 7, 2007</p> <p>Date of Survey _____</p> <p>Signature and Seal of Professional Surveyor</p> <p><i>[Surveyor Seal: V. BEZNER, No. 7920, State of New Mexico]</i></p> <p>Certification Number _____ S. #7920</p> <p>JOB # _____ 4 SW / E.U.O.</p> </div>
---	--

Drilling Program

APOLLO ENERGY, L.P.

Russell USA #71

1980' FWL & 1530' FNL

Section 13-20S-28E Eddy County, New Mexico

Please address inquiries, questions, scheduling of meetings and deficiency statements, if any, to Scott St. John and/or Monica Smith at the address shown below:

**Reagan Smith Energy Solutions, Inc.
2525 NW Expressway, Suite 312
Oklahoma City, OK 73112
405-286-9326
sstjohn@rsenergysolutions.com**

Drilling Program
Apollo Energy, L.P.
Russell USA #71

1980' FWL & 1530' FNL
Section 13-20S-28E Eddy County, New Mexico

2.1 Location:

1980' FWL & 1530' FNL

2.2 Elevation Above Sea Level:

GR 3252'

2.3 Geologic Name of Surface Formation:

Permian Age

2.4 Drilling Tools and Associated Equipment:

Conventional rotary drilling rig using fluid will be used as a circulating medium for solids removal.

2.5 Proposed Drilling Depth:

1200'

2.6 Estimated Tops of Geological Markers:

Yates	725'
Seven Rivers	910'
Total Depth	1,200'

2.7 Estimated Depths of Anticipated Fresh Water, Oil, and Gas

Surface	Water	44' – 360'
Yates	Oil/Gas	750' – 800'
Seven Rivers	Oil/Gas	920' – 950'

Base to Treatable Water for well #71 is: 360'

Groundwater to be protected by 8-5/8" surface casing with cement circulated to the surface. Potentially productive horizons to be protected by 4-1/2" production casing with cement tied back to a minimum of the surface casing but with anticipation to circulate to surface.

See
COA

2.8 Casing Program

<u>Hole Size</u>	<u>Interval</u>	<u>Casing OD</u>	<u>Weight</u>	<u>Thread</u>	<u>Collar</u>	<u>Grade</u>
11"	0 - 385'	8-5/8"	24	STC	STC	J-55
6-3/4"	0 - 1200'	4-1/2"	9.5	STC	STC	J-55

2.9 Cementing & Setting Depth

Surface 8-5/8" – Cement 8-5/8", 24#, J-55 casing with 125 sx of Class "C" cement with 2% CaCl + 1/4 # /sx Flocele. Run Floatshoe and 5 centralizers. Casing specs: collapse resistance is 1370 psi; yield pressure is 2950 psi; Joint strength is 244,000 psi; body yield strength is 381,000.

Production 4-1/2" – Set 1,200' of 4-1/2" J-55 9.5# STC casing. Cement will consist of 150 sks of Class "C" cement with 2% gel, 5 # sx of salt and .75% CFR-2. Use guide shoe and float collar, and 10-12 centralizers where necessary. Use top and bottom rubber plugs, displace cement with clean, fresh water treated with 2% KCL. Casing specs: collapse resistance is 3310 psi; yield pressure is 4380 psi; Joint strength is 101,000 psi; body yield strength is 152,000.

2.10 Pressure Control Equipment

see CDA → An 8" 1000 psi working pressure B.O.P. will be installed. A choke manifold and accumulator with floor and remote operating stations and auxiliary power system. 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 8-5/8" casing and will be operated at least once a day while drilling. No abnormal pressure or temperature is expected while drilling.

2.11 Proposed Mud Circulating System

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 – 385'	8	33 - 35	NC	Spud with Bentonite/Soda Ash/Caustic slurry using a Fresh Water Gel. Set Surface Casing.
385' – 1200'	9.5 – 9.8	50 – 60, 45 SEC at TD	NC	Fresh water. Drill out using Brine Salt Gel to insure that salt and anhydrite sections do not wash

The Mud System will be a closed system. All drill cuttings and liquid mud will be hauled to an approved site for disposal. Sufficient mud materials will be kept on location at all times in order to combat lost circulation, or unexpected kicks. The viscosity and water loss may have to be adjusted in order to meet these needs.

2.12 Evaluation Program:

1. **Samples:** None
2. **Electric Logging:** Dual Induction Tool with Gamma Ray; Density Neutron Porosity Log
3. **Coring:** Yates Formation
4. **Drill Stem Tests:** No DST's

2.13 Potential Hazards:

No abnormal pressures or temperatures or H₂S has are expected. Adequate flare lines will be installed off the mud / gas separator where gas may be flared safely. All personnel will be familiar with all aspects of safe operation of equipment being used. Estimated BHP 300 PSI, estimated BHT 80.

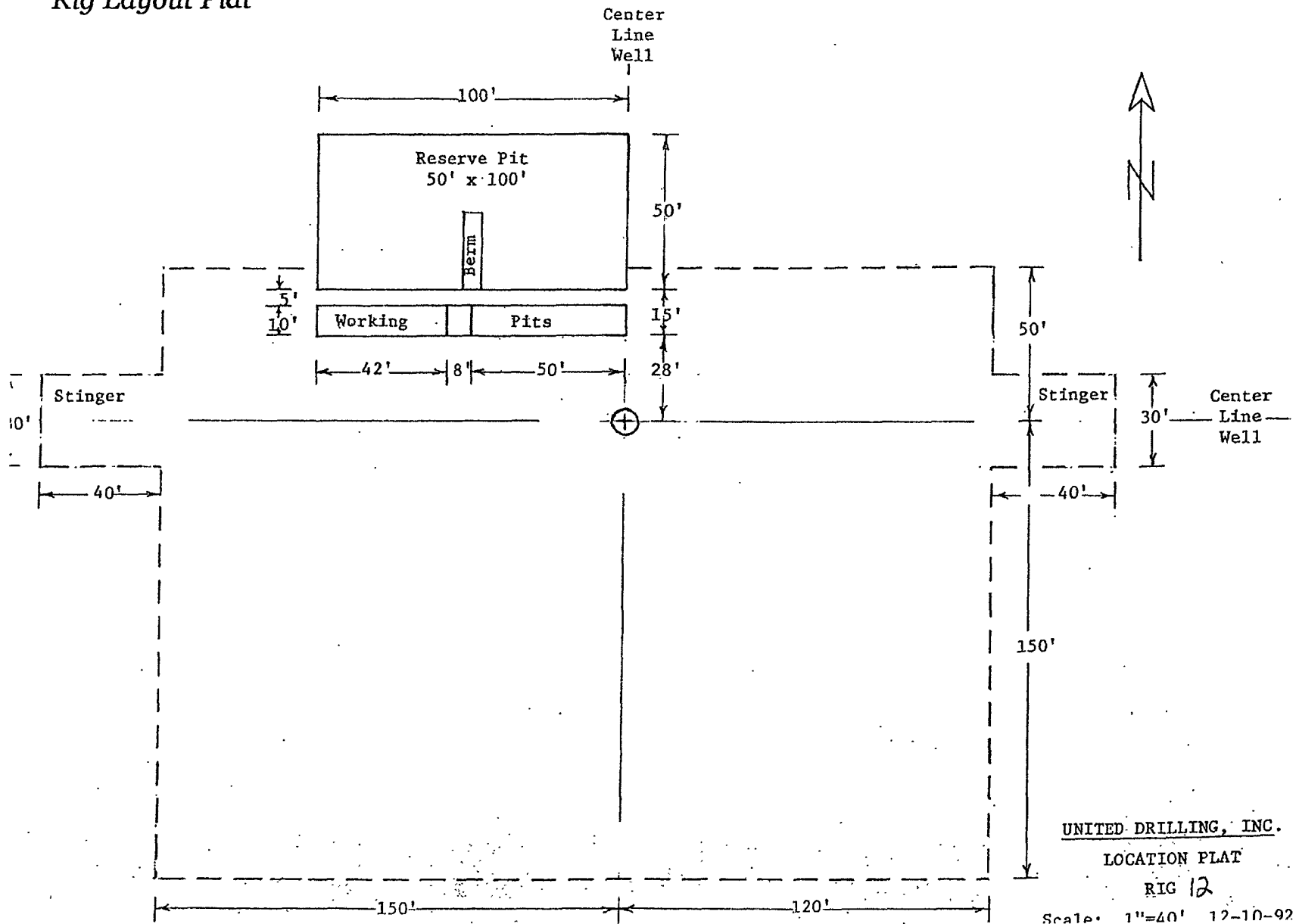
2.14 Anticipated Starting Date and Duration of Operations:

Lease road upgrades and location construction will begin after BLM approval of APD. Anticipated spud date is July 1st, 2007. Total duration of work is estimated to be 7 – 14 days.

2.15 Downhole Conditions:

Zones of Possible Lost Circulation:	Surface Interval
Zones of Abnormal Pressure:	None
Maximum Bottom Hole Temperature:	80 Degrees Fahrenheit
Maximum Bottom Hole Pressure:	300 psi

Exhibit D
Rig Layout Plat



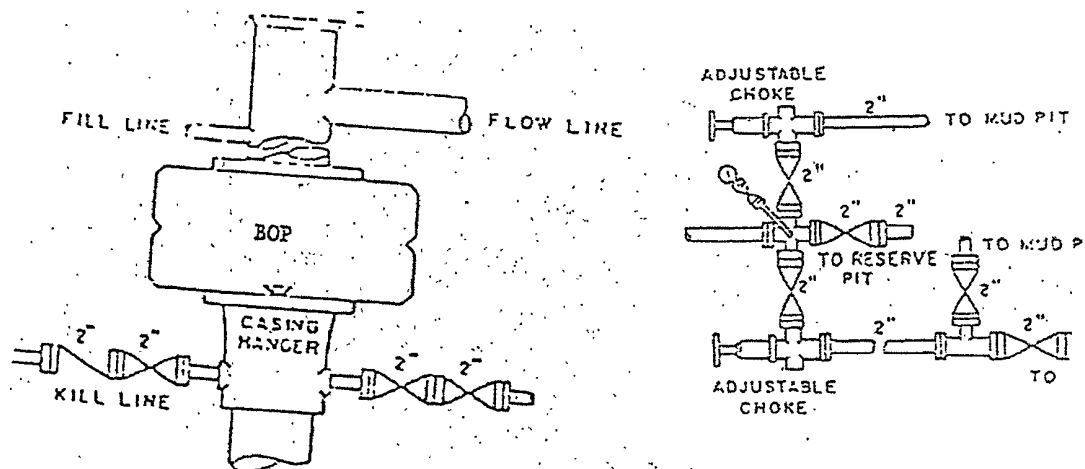
UNITED DRILLING, INC.

LOCATION PLAT

RIG 12

Scale: 1"=40' 12-10-92

Exhibit E – Well Control Equipment /
Blowout Preventor Stack and Choke
Manifold



ANNULAR BOP STACK

PRESSURE 1000#

Hydrogen Sulfide Drilling Operations Plan

**APOLLO ENERGY, L.P.
Russell USA #71
1980' FWL & 1530' FNL
Section 13-20S-28E Eddy County, New Mexico**

Please address inquiries, questions, scheduling of meetings and deficiency statements, if any, to Scott St. John and/or Monica Smith at the address shown below:

**Reagan Smith Energy Solutions, Inc.
2525 NW Expressway, Suite 312
Oklahoma City, OK 73112
405-286-9326
sstjohn@rsenergysolutions.com**

Hydrogen Sulfide Drilling Operations Plan

Apollo Energy, L.P.

Russell USA #71

1980' FWL & 1530' FNL

Section 13-20S-28E Eddy County, New Mexico

3.1. Training

All company and contract personnel admitted on location must 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 minutes pressure demand air pack

3.2. 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

3.3. Windsock and/or wind streamers

- A. windsock at mudpit 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

3.4. Condition Flags and Signs

- A. Warning sign on access road to location
- B. Flags to be displayed on sign at entrance to location. Green flag, normal safe condition. Yellow flag indicates potential pressure and danger. Red flag, danger – H₂S present in dangerous concentration. Only emergency personnel admitted to location.

3.5. Well Control Equipment

- A. See Exhibit "E"

3.6. Communications

- 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 will be used to communicate off location in case of emergency help is required. In most cases cellular telephones will be available at most drilling foreman's trailer or living quarters.

3.7. Drillstem Testing

- A. Exhausts will be watered
- B. Flare line will be equipped with an electric ignitor or a propane pilot light in the event that gas reaches the surface
- C. If location is near any dwelling a closed DST will be performed

3.8. Supervision

- A. Drilling contractor supervisor will be required to be familiar with the effects H₂S has on tubular goods and other mechanical equipment

3.9. Mud System

- A. If H₂S is 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.

Surface Use Plan
APOLLO ENERGY, L.P.
Russell USA #71
1980' FWL & 1530' FNL
Section 13-20S-28E Eddy County, New Mexico

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2525 NW Expressway, Suite 312
Oklahoma City, OK 73112
405-286-9326
sstjohn@rsenergysolutions.com

SURFACE USE PLAN

Apollo Energy, L.P.

Russell USA #71

1980' FWL & 1530' FNL

Section 13-20S-28E

Eddy County, New Mexico

4.1 Existing Roads:

Area Maps, Exhibit "G" is a reproduction of Eddy Co. General Highway map. Exhibit "C" is a reproduction of a USGS Topographic Map showing existing roads and proposed roads. All existing roads will be maintained in a condition equal to or better than current conditions. Any new roads will be constructed to BLM specifications.

- A. Exhibit "A" shows the proposed well site as staked
- B. Detailed Directions to Location – From junction of Greene Street (US 62 US 180), go North 8 miles to Magnum Road; Thence go West 0.7 miles on county road 238, thence North 0.5 miles on lease road to a point approximately 60' East of the Russell USA #71 well location.

4.2 Planned Access Roads

An existing trail road will be used and upgraded to access the well site.

4.3 Location of Existing Wells in a One-Mile Radius Exhibit "H"

- | | |
|----------------------|---|
| A. Water wells - | None Known |
| B. Disposal wells - | 4- Russell USA #47, #48, #60 & #65 |
| C. Drilling wells - | None Known |
| D. Producing wells - | 7 - Russell USA #6, #14, #18, #25, #38, #56 and #69 |
| E. Abandoned wells - | None Known |

4.4 Additional Maps and Plats

See Exhibit "D" for the Rig Layout and Exhibit "E" for well control equipment.

4.5 Location and Typed of Water Supply

Water will be purchased locally from a commercial source and trucked to holding tank in field.

4.6 Source of Construction Material

If possible, construction will be obtained from the excavation of drill site, if additional material is needed it will be purchased from a local source and transported over the access route as shown on Exhibit "B".

4.7 Methods of Handling Waste Material

- A. Drill cuttings will be disposed of in a cuttings pit.
- B. All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering. When the job is completed all contents will be removed and disposed of in an approved sanitary land fill.
- C. Salts remaining after completion of well will be picked up by supplier including broken sacks.
- D. Sewage from living quarters will drain into holding tanks and be cleaned out periodically. A Porta-John will be provided for the rig crews. This equipment will be properly maintained during the drilling operations and removed upon completion of the well.
- E. Excess fluids will be hauled off by transports and be disposed of at a state approved disposal facility. Later pit area will be leveled and contoured to conform with the original and surrounding area. Water and any oil or condensate produced will be stored in test tanks until sold and hauled from the site.

4.8 Ancillary Facilities

- A. No camps or airstrips to be constructed.

4.9 Well Site Layout

- A. Exhibit "D" shows location and rig layout
- B. This exhibit indicates proposed location of reserve and trash pits and living facilities
- C. Mud pits in the active circulating system will be steel pits with a cuttings pit. The cuttings pit liner will be 6 mils thick PVC or polyethylene. Pit liner will extend a minimum 2' over the cuttings pit, where it will be anchored down.
- D. Upon completion of the well, all excess fluids will be suctioned off from the cuttings pit and hauled off for proper disposal.

- E. The reserve pit will be fenced on three sides with four strands of barbed wire during drilling and completion phases. The fourth side will be fenced after all drilling operations have ceased. If the well is a producer, the reserve pit fence will be torn down. The reserve pit and those areas of the location not essential to production facilities will be reclaimed and seeded per BLM requirements.

4.10 Plans for Restoration of Surface

Rehabilitation of the location and reserve pit will start in a timely manner after all drilling operations cease. The type of reclamation will depend on whether the well is a producer or a dry hole.

The reserve pit will be allowed to dry properly, and fluid removed and disposed of in accordance with Article 7.B as previously noted. The pit area will then be leveled and contoured to conform to the original and surrounding area. Drainage systems, if any, will be reshaped to the original configuration with provisions made to alleviate erosion. These may need to be modified in certain circumstances to prevent inundation of the location's pad and surface facilities. After the area has been shaped and contoured, topsoil from the spoil pile will be placed over the disturbed area to the extent possible. Revegetation procedures will comply with BLM standards.

4.11 Other Information

- A. Topography consists of a relatively flat surface with loose tan sands. Vegetation is mainly yucca, mesquite and shin oak.
- B. The well site is on surface owned by The United States Department of the Interior, Bureau of Land Management. The land is used mainly for farming, cattle ranching, recreational use, and oil and gas production.
- C. An Archeological survey will be conducted on the location and proposed roads, and this report will be filed with the Bureau of Land Management in the Carlsbad BLM office.
- D. There are no known dwellings within 1 mile of this location.

4.12 Operators Representative

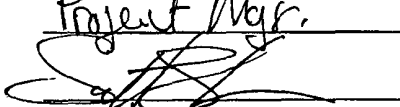
Before and During Drilling
Gregory H. Hall
P.O. box 30444
Edmond, OK 73003
Office Phone: 405-630-7620

After Construction
Tommy Wright
4823 Ihles Road
Lakes Charles, LA 70605
337-502-5227
337-502-5230

4.13 Certification

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 that the work associated with the operations proposed herein will be performed by Encore Operating and/or its contractors/subcontractors and is in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provision of U.S.C. 1001 for the filing of a false statement.

Date: 6/19/07
Name: Scott St. John
Title: Project Mgr.


Scott St. John, Agent for Apollo Energy, L.P.

Please address inquiries, questions, scheduling of meetings and deficiency statements, if any to Scott St. John and/or Monica Smith at the address shown below:

Reagan Smith Energy Solutions, Inc.
2525 NW Expressway, Suite 312
Oklahoma City, Oklahoma 73112
(405) 286-9326

Exhibits

Exhibit B
Location and Access Road Map

PLAT SHOWING PROPOSED WELL LOCATION IN
SECTION 13, T-20-S, R-28-E, N.M.P.M.
EDDY COUNTY, NEW MEXICO

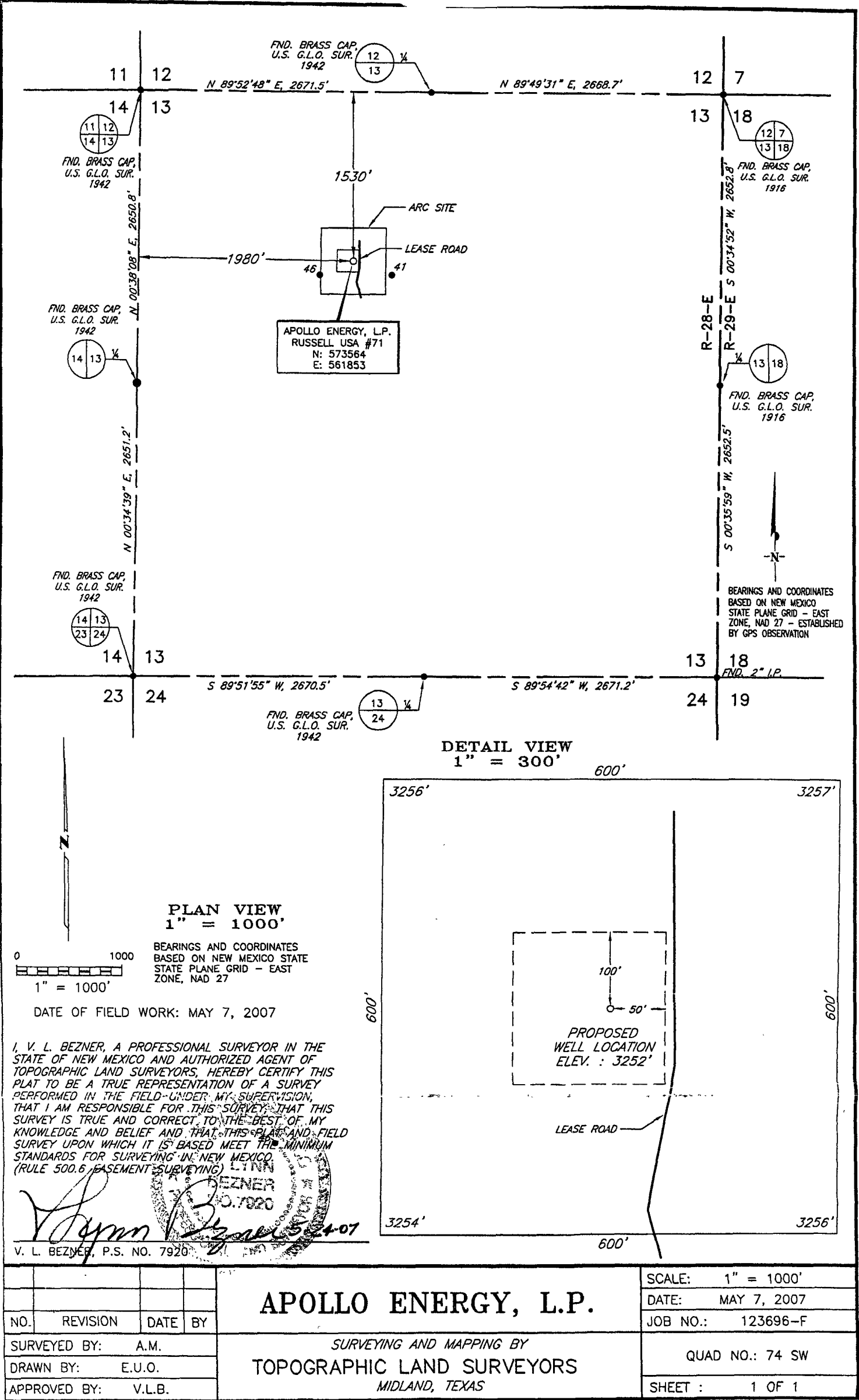
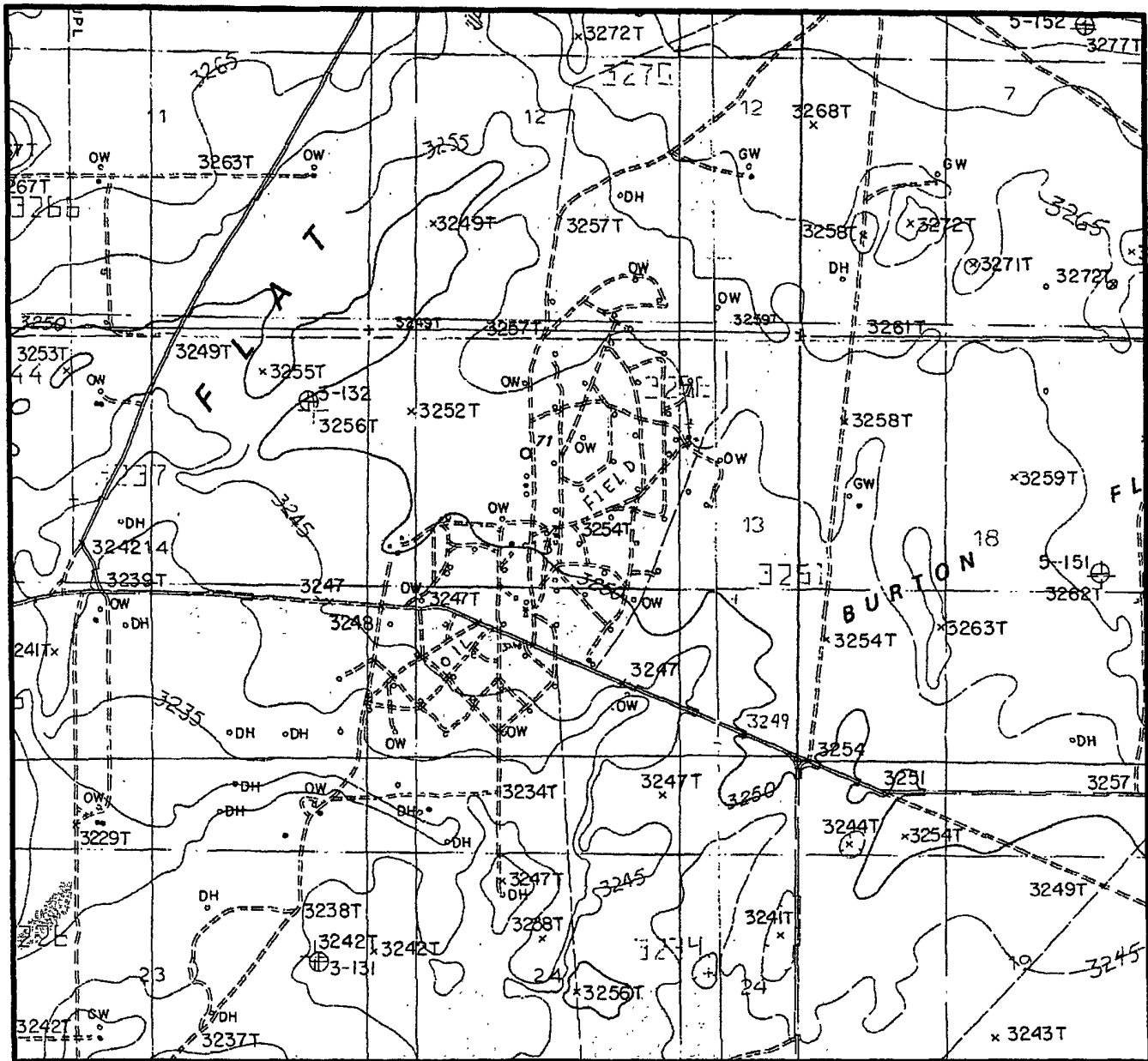


Exhibit C
LOCATION & ELEVATION VERIFICATION MAP



SCALE : 1" = 2000'

CONTOUR INTERVAL 10'

SECTION 13 TWP 20-S RGE 28-E

SURVEY NEW MEXICO PRINCIPAL MERIDIAN

COUNTY EDDY STATE NM

DESCRIPTION 1530' FNL & 1980' FWL

ELEVATION 3252'

OPERATOR APOLLO ENERGY, L.P.

LEASE RUSSELL USA #71

U.S.G.S. TOPOGRAPHIC MAP

ANGEL DRAW, NEW MEXICO

SCALED LAT. LAT.: N 32.5766744

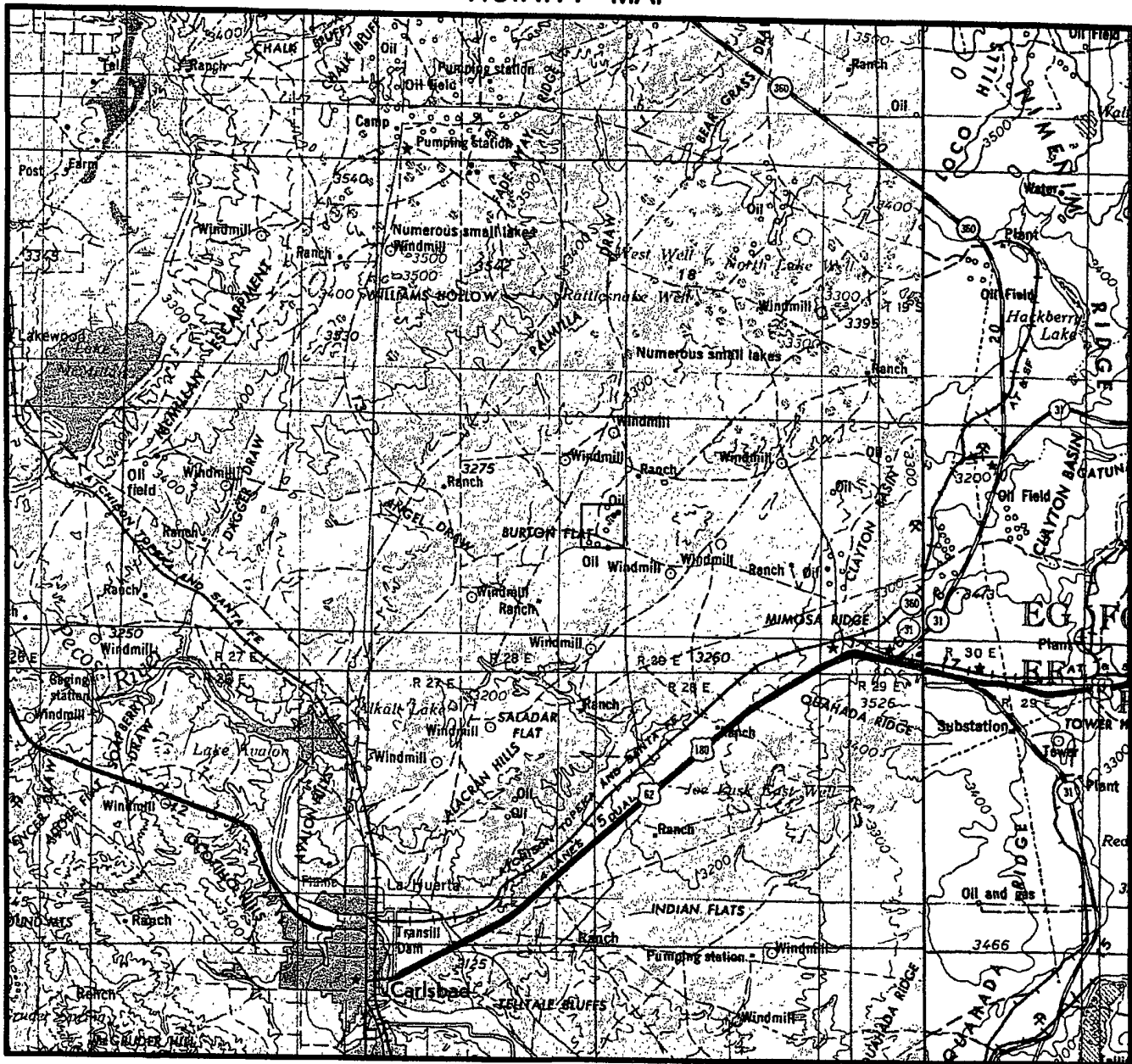
LONG. LONG.: W 104.1325386

TOPOGRAPHIC LAND SURVEYORS

Surveying & Mapping for the Oil & Gas Industry

2903 N. BIG SPRING
MIDLAND, TX. 79705
(800) 767-1653

EXHIBIT G VICINITY MAP



SECTION 13 TWP 20-S RGE 28-E
 SURVEY NEW MEXICO PRINCIPAL MERIDIAN
 COUNTY EDDY STATE NM
 DESCRIPTION 1530' FNL & 1980' FWL

OPERATOR APOLLO ENERGY, L.P.
 LEASE RUSSELL USA #71

DISTANCE & DIRECTION FROM THE JUNCTION OF HWY. 62/180
IN CARLSBAD, GO NORTH 8.0 MILES ON MANGUM RD., THENCE
WEST 0.7 MILES ON ON CO. RD. 238, THENCE NORTH 0.5
MILES ON LEASE ROAD TO A POINT ±60' EAST OF THE
LOCATION.



TOPOGRAPHIC LAND SURVEYORS
Surveying & Mapping for the Oil & Gas Industry

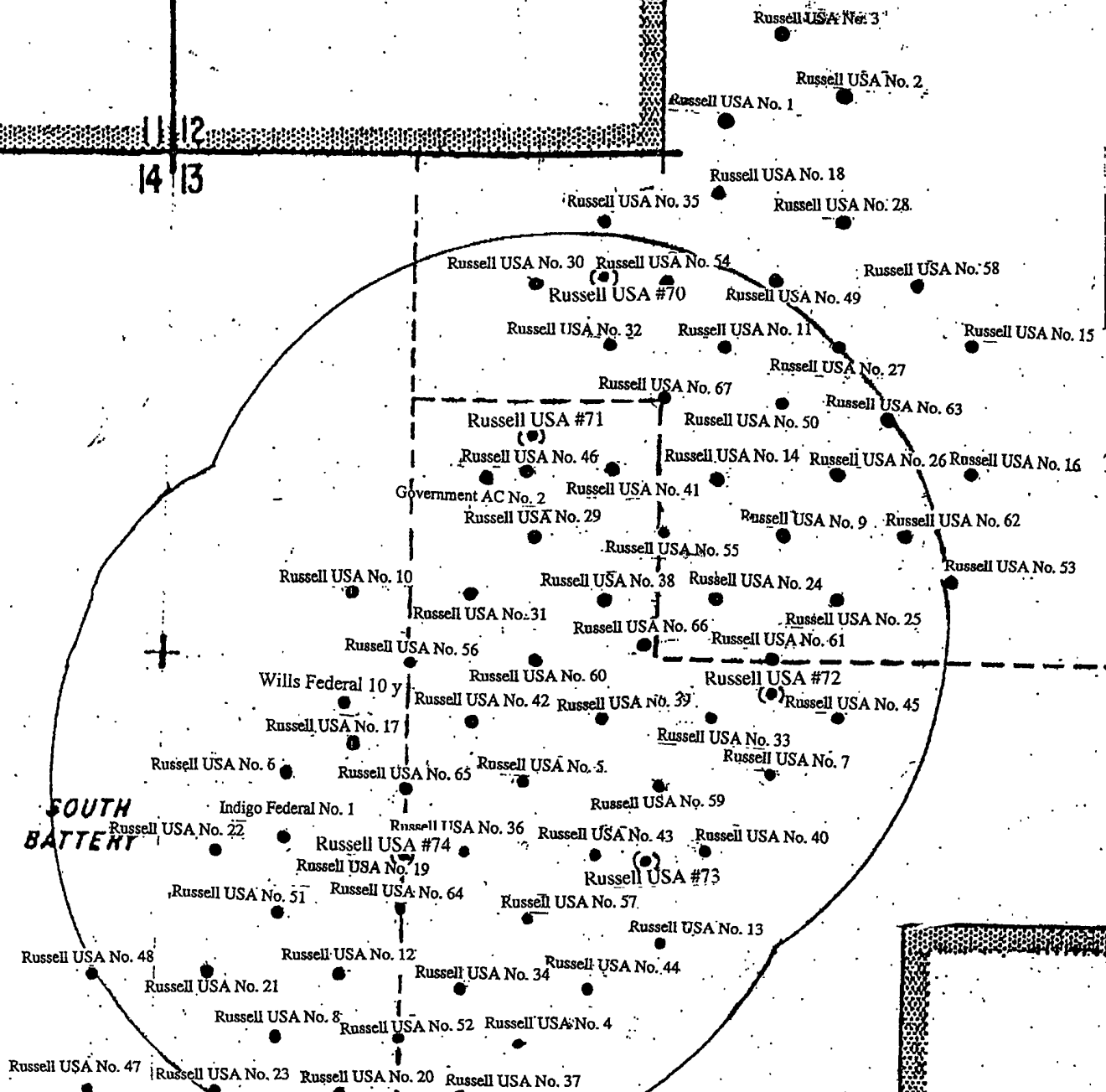
This location has been very carefully staked on the ground according to the best official survey records, maps, and other data available to us.

Review this plot and notify us immediately of any possible discrepancy.

1307 N. HOBART
 PAMPA, TX. 79065
 (800) 658-6382

6709 N. CLASSEN BLVD.
 OKLAHOMA CITY, OK. 73116
 (800) 654-3219

2903 N. BIG SPRING
 MIDLAND, TX. 79705
 (800) 767-1653



**SOUTH
BATTERY**

SUDDETH B. HICKS 23 24

Exhibit I
Apollo Energy, L.P.
Russell Field
Area of Review Map

RUSSELL POOL

Wesley W
Ingram/CFO/NM/BLM/DOI
07/05/2007 12:05 PM

To Cheryle M Ryan/CFO/NM/BLM/DOI@BLM
cc
bcc
Subject Fw: Russell USA #70, 71,72, 73, & 74 Drilling Program
Deficiency Notice Reply

----- Forwarded by Wesley W Ingram/CFO/NM/BLM/DOI on 07/05/2007 12:05 PM -----



"Scott St. John"
<sstjohn@rsenergysolutions.
com>
07/05/2007 11:04 AM

To <wesley_ingram@nm.blm.gov>
cc
Subject Russell USA #70, 71,72, 73, & 74 Drilling Program
Deficiency Notice Reply

Wesley, per the deficiency notice we received date June 21, 2007 regarding the wells above, I have compiled a response to address the drilling program issues.

- 1) The BOP will have a 2M pressure rating.
- 2) The casing will be new casing
- 3) The safety factor of the burst, collapse, and tension will be rated at 50% safety factor, in other words a safety factor of 2.
- 4) The cement yield will be 1.29 cu. Ft per sack.

This should take care of the drilling program deficiencies indicated. If you have any questions or concerns please e-mail or call me at the number below.

Thanks for your help and cooperation with these APD's.

Scott

Scott St. John



**2525 Northwest Expressway
Suite 312
Oklahoma City, OK
Sr. Landman / Project Manager
Tel: (405)-286-9326
Fax: (405)-848-2712**

SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name: Apollo Energy, L.P. Well Name & #: Russell USA # 71
 Location 1530 F N L & 1980 F W L; Sec. 13, T. 20 S., R. 28 E.
 Lease #: LC-050797 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) (x) Other **See attached Cave/Karst Conditions of Approval**

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. **Avoid gas pipeline to the east. Restrict pad size to the east to 50 ft.**

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 reserve pit(s) 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 ½ 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) | (x) B. Seed Mixture 2 (Sandy Sites) |
| Side Oats Grama (<i>Bouteloua curtipendula</i>) 5.0 | Sand Dropseed (<i>Sporobolus crptandrus</i>) 1.0 |
| Sand Dropseed (<i>Sporobolus cryptandrus</i>) 1.0 | Sand Lovegrass (<i>Eragrostis trichodes</i>) 1.0 |
| Plains lovegrass (<i>Eragrostis intermedia</i>) 0.5 | Plains Bristlegrass (<i>Setaria magrostachya</i>) 2.0 |
| () C. Seed Mixture 3 (Shallow Sites) | () D. Seed Mixture 4 (Gypsum Sites) |
| Side oats Grama (<i>Bouteloua curtipendula</i>) 5.0 | Alkali Sacaton (<i>Sporobolus airoides</i>) 1.0 |
| Green Spangletop (<i>Leptochloa dubia</i>) 2.0 | Four-Wing Saltbush (<i>Atriplex canescens</i>) 5.0 |
| Plains Bristlegrass (<i>Setaria magrostachya</i>) 1.0 | |

() 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.

Painting Requirement:

All above-ground structures including meter housing that are not subject to safety requirements shall be painted a flat non-reflective paint color, shale green, Munsell Soil Color Chart Number 5Y 4/2.

() Other

RESERVE PIT CONSTRUCTION STANDARDS

The reserve 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 reserve pits 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.

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 Cave and Karst

EA#: NM-520-07-0968

Lease #: LC-050797

Apollo Energy, L.P.

Russell USA Fed. #70, #71, #72, #73, #74

Cave/Karst Surface Mitigation

The following stipulations will be applied to minimize impacts during construction, drilling and production.

Berming:

Any tank batteries will be constructed and bermed large enough to contain any spills that may occur.

Bermed areas will be lined with rip-stop padding to prevent tears or punctures in liners and lined with a permanent 20 mil plastic liner.

Cave/Karst Subsurface Mitigation

The following stipulations will be applied to protect cave/karst and ground water concerns:

Rotary Drilling with Fresh Water:

Rotary drilling techniques in cave or karst areas will include the use of fresh water as a circulating medium in zones where caves or karst features are expected. Use depth to the deepest expected fresh water as listed in the geologist report.

Casing:

All casing will meet or exceed National Association of Corrosion Engineers specifications pertaining to the geology of the location and be run to American Petroleum Institute and BLM standards.

Lost Circulation:

ALL lost circulation zones from the surface to the base of the cave occurrence zone will be logged and reported.

Regardless of the type of drilling machinery used, if a void (bit drops) of four feet or more and circulation losses greater than 75 percent occur simultaneously while drilling in any cave-bearing zone, drilling operations will immediately stop and the BLM will be notified by the operator. The BLM will assess the consequences of the situation and work with operator on corrective actions to resolve the problem.

Abandonment Cementing:

Upon well abandonment the well bore will be cemented completely from 100 feet below the bottom of the cave bearing zone to the surface.

Record Keeping:

The Operator will track customary drilling activities, including the rate of penetration, pump pressure, weight on bit, bit drops, percent of mud returns, and presence or absence of cuttings returning to the surface. As part of customary record keeping, each detectable void or sudden increase in the rate of penetration not attributable to a change in the formation type should be documented and evaluated as it is encountered.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Apollo Energy, L.P.
Well Name & No. 71-Russell USA
Location: 1530' FNL, 1980' FWL, Sec. 13, T-20-S, R-28-E, Eddy County, NM
Lease: NMLC 050797

.....

I. DRILLING OPERATIONS REQUIREMENTS:

- A. The Bureau of Land Management (BLM) is to be notified a minimum of 2 hours in advance for a representative to witness:
1. Spudding well
 2. Setting and/or Cementing of all casing strings
 3. BOPE tests
- Eddy County call the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822.
- B. **Although Hydrogen Sulfide has not been reported in the area, it is always a possible hazard.**
- C. 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.

II. CASING:

- A. The 8-5/8 inch surface casing shall be set above the salt at approximately 385 feet and cemented to the surface.
1. If cement does not circulate to the surface, the appropriate BLM office shall be notified and a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
 2. Wait on cement (WOC) time for a primary cement job will be a minimum of 18 hours, 24 hours in the potash area or 500 pounds compressive strength, whichever is greater. (This is to include the lead cement)
 3. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compressive strength, whichever is greater.
 4. **If cement falls back, remedial action will be done prior to drilling out that string.**

Possible lost circulation in the Yates and Seven Rivers.

High potential for cave/karst features.

- B. The minimum required fill of cement behind the 4-1/2 inch production casing is cement to surface. If cement does not come to surface, see A.1 thru 4. **Cement to surface due to high cave/karst.**
- C. If hardband drill pipe is rotated inside casing; returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

III. PRESSURE CONTROL:

- A. All blowout preventer (BOP) and related equipment (BOPE) shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2 and API RP 53 Sec. 17.
- B. Minimum working pressure of the blowout preventer (BOP) and related equipment (BOPE) required for drilling below the surface casing shoe shall be **2000 (2M) PSI**. This can be a 2M annular.
- C. The appropriate BLM office shall be notified a minimum of 2 hours in advance for a representative to witness the tests.
 - 1. The tests shall be done by an independent service company.
 - 2. The results of the test shall be reported to the appropriate BLM office.
 - 3. All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.
 - 4. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.

Engineer on call phone (after hours): Carlsbad - 505-706-2779

WWI 071707



October 22, 2007

OCT 25 2007
OCD-ARTESIA

New Mexico Oil Conservation Division
1301 West Grand Ave.
Artesia, NM 88210
Attention: Bryan Arrant

RE: Apollo Energy, LP.
H₂S Contingency Plan for Russell USA 70, 71, 72, 73, & 74
Russell USA Field
T20S-R28E, Eddy County, NM

Dear Mr. Arrant:

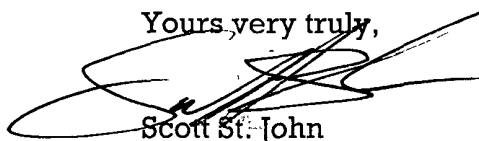
Upon review of applicable data, Apollo Energy, LP has come to the conclusion that according to the New Mexico Oil Conservation Division Rule 118, a contingency plan is not required.

A gas component analysis was performed by Wildcat Measurement Service on June 15, 2007. The test was performed on a nine (9) well system tied into a single separator and then passing onto a heater treater. The flow rate of the gas of the combined nine (9) wells is so low it is immeasurable with testing equipment. However it is estimated to be about 1,000 cubic feet/day. This is based on the best estimate of the produced gaseous mixture from field observations. This data combined with an H₂S mole percentage of 8.25 translated into an exposure radius of 44'.

Since the field is not in a public area, this study focused on the radius of exposure with regards to any public road. The Russell USA field lies between Magnum Road, however, no well location is closer than 330' feet of Magnum Road.

I have included a copy of the gas component analysis along with the supporting calculations.

Yours very truly,



Scott St. John
For Apollo Energy, LP.

Enclosure

Cc: SSJ, TW, GH

1219 Classen Drive • Oklahoma City, OK 73103
(405) 286-9326 • Toll Free: (866) 551-7913 • Fax: (405) 600-3400
www.rsenergysolutions.com

Radius of Exposure Calculation

Equation

Hydrogen Sulfide Concentration

Q (Cubic Feet / Day / 9 wells)

Q(Cubic Feet / Day / 1 well)

Formula with Constants

Radius of Exposure (x)

$$X=[(.4546)(\text{Hydrogen Sulfide Concentration})(Q)]^{(.6258)}$$

8.25

1,000

111

$$X=[(.4546)(8.25)(111)]^{(.6258)}$$

44'

Wildcat Measurement Service
 P.O. Box 1836
 Artesia, New Mexico 88211-1836
 TollFree #888-421-9453
 Office #505-746-3481
 "Quality and Service is our First Concern"

PDS 06/25/00

Run No. 270615-01
 Date Run 06/15/2007
 Date Sampled 06/14/2007

Analysis for: APOLLO ENERGY
 Well Name: ROSSELL USA BATTERY
 Field: BURTON FLATS
 Sta. Number:
 Purpose: SPOT
 Sampling Temp: 77 DEG F
 Volume/day:
 Pressure on Cylinder: 4.2 PSIG

GPANGL 662
 Producer: APOLLO ENERGY
 County: EDDY State: NM
 Sampled By: CHAD CAMPBELL
 Atmos Temp: 82 DEG F
 Formation:
 Line Pressure: 17.4 PSIA

GAS COMPONENT ANALYSIS

Pressure Base: 14.6500

		Mol %	GPM
Carbon Dioxide	CO2	2.4915	
Nitrogen	N2	2.4360	
Hydrogen Sulfide	H2S	8.2500	
Methane	C1	33.8331	
Ethane	C2	31.2748	8.3141
Propane	C3	15.4050	4.2185
Iso-Butane	IC4	1.4796	0.4813
Nor-Butane	NC4	2.9891	0.9372
Iso-Pentane	IC5	0.6319	0.2300
Nor-Pentane	NC5	0.4462	0.1607
Hexanes Plus	C6+	0.7628	0.3310

Real BTU Dry: 1570.33
 Real BTU Wet: 1543.02
 Real Calc. Specific Gravity: 1.0538
 Field Specific Gravity: 0.0000

Standard Pressure: 14.6960
 BTU Dry: 1563.29
 BTU Wet: 1536.09

Z Factor: 0.9924
 N Value: 1.2349
 Avg Mol Weight: 30.3019
 Avg CuFt/Gal: 49.2207
 26 Lb Product: 1.0854
 Methane+ GPM: 20.3763
 Ethane+ GPM: 14.6728
 Propane+ GPM: 6.3588
 Butane+ GPM: 2.1402
 Pentane+ GPM: 0.7217

TOTAL 100.0000 14.6728

REMARKS:

H2S IN GAS STREAM: 8.2500% = 82,500 PPM

Approved by: DON NORMAN

Fri Jun 15 13:23:04 2007

PLAT SHOWING PROPOSED WELL LOCATION IN
SECTION 13, T-20-S, R-28-E, N.M.P.M.
EDDY COUNTY, NEW MEXICO

