

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Penwell Energy, Inc.

Well No. 1 - FH 29 Federal Com

Location: 1980' FSL & 660' FEL sec. 29, T. 23 S., R. 26 E.

Lease: NM-94838

.....
I. DRILLING OPERATIONS REQUIREMENTS: CARLSBAD CONTROLLED WATER BASIN

The Bureau of Land Management (BLM) is to be notified at (505) 887-6544 in sufficient time for a representative to witness:

1. Spudding
2. Cementing casing: 13-3/8 inch 9-5/8 inch 7 inch 4-1/2 inch liner
3. Include the API No. assigned to well by NMOCDC on the subsequent report of setting the first casing string.

II. CASING:

1. 13-3/8 inch surface casing should be set at 600 feet, below usable water and circulate cement to the surface. If cement does not circulate to the surface this 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. Minimum required fill of cement behind the 9-5/8 inch intermediate casing is to circulate to surface.
3. Minimum required fill of cement behind the 7 inch production casing is sufficient to tie back 200 feet into 9-5/8 inch intermediate casing at 1700 feet.
4. Minimum required fill of cement behind the 4-1/2 inch production liner is sufficient to tie back 200 feet into 7 inch production casing at 10700 feet.

III. PRESSURE CONTROL:

1. Before drilling below the 13-3/8 inch surface casing, the blowout preventer assembly shall consist of a minimum of One Annular Preventer, Two Ram-Type Preventers, and a Kelly Cock/Stabbing Valve.
2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 5000 psi.
3. After setting the 9-5/8 inch intermediate casing string and before drilling into the Wolfcamp formation, the BOPE shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.
4. The results of the test will be reported to the BLM Carlsbad Resource Area office at 620 East Greene Street, Carlsbad, New Mexico 88220-6292.
5. A Hydrogen Sulfide Contingency Plan should be activated prior to drilling in the Wolfcamp formation. A copy of the plan shall be posted at the drilling site.

IV. OTHER:

1. 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.