

N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Avenue
Artesia, NM 88210

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

0
OMB No. 1004-0136
Expires November 30, 2000

RECEIVED

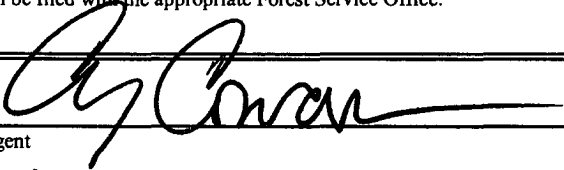
SEP 15 2005

APPLICATION FOR PERMIT TO DRILL OR REENTER

| | | | | | |
|--|--|---|---|--|--|
| 1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER | | | 5. Lease Serial No. NM-029588 | | |
| b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone | | | 6. If Indian, Allottee or Tribe Name | | |
| 2. Name of Operator Yates Petroleum Corporation 25575 | | | 7. If Unit or CA Agreement, Name and No. | | |
| 3A. Address 105 South Fourth Street Artesia, New Mexico 88210 | | 3B. Phone No. (include area code) (505) 748-1471 | | 8. Lease Name and Well No. 35107 Temperate BEC Federal Gem #1 | |
| 4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 3960' FNL and 660' FWL At proposed prod. Zone Same | | | 9. API Well No. 30-015-34339 | | |
| 14. Distance in miles and direction from nearest town or post office* Approximately 13 miles northeast of Carlsbad, New Mexico. | | | 10. Field and Pool, or Exploratory W.C. MISS 96068 | | |
| 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 640 | | 17. Spacing Unit dedicated to this well ----- |
| 18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 1 of a mile | | | 19. Proposed Depth 12600' | | 20. BLM/BIA Bond No. on file NM-2811 |
| 21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3443' GL | | | 22. Approximate date work will start* ASAP | | 23. Estimated duration 45 days |
| 24. Attachments CAPITAN CONTROLLED WATER BASIN | | | | | |

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 6/28/05 |
| Regulatory Agent | | |
| Approved by (Signature) /s/ Joe G. Lara | Name (Printed/Typed) /s/ Joe G. Lara | Date SEP 13 2005 |
| Title ACTING FIELD MANAGER | Office CARLSBAD FIELD OFFICE | |

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) C-144 attached

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED

Witness Surface Casing

5.17
29.5

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENTFORM APPROVED
OMB No. 1004-0135
Expires November 30, 2000

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or reenter an abandoned well. Use Form 3160-3 (APD) for such proposals.

SUBMIT IN TRIPLICATE - Other instructions on reverse side

1. Type of Well

☐ Oil Well ☒ Gas Well ☐ Other

2. Name of Operator

Yates Petroleum Corporation

3a. Address

105 South Fourth Street, Artesia, NM 88210

3b. Phone No. (include area code)

(505) 748-1471

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)

3960' FNL and 660' FWL
Section 6, T21S-R29E

5. Lease Serial No.

NM-029588

6. If Indian, Allottee or Tribe Name

7. If Unit or CA/Agreement, Name and/o

8. Well Name and No.

Temperate BEC Federal Com. #

9. API Well No.

10. Field and Pool, or Exploratory Area

Wildcat Chester

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

| TYPE OF SUBMISSION | TYPE OF ACTION | | | |
|--|---|---|--|---|
| <input checked="" type="checkbox"/> Notice of Intent | <input type="checkbox"/> Acidize | <input type="checkbox"/> Deepen | <input type="checkbox"/> Production (Start/Resume) | <input type="checkbox"/> Water Shut-Off |
| <input type="checkbox"/> Subsequent Report | <input type="checkbox"/> Alter Casing | <input type="checkbox"/> Fracture Treat | <input type="checkbox"/> Reclamation | <input type="checkbox"/> Well Integrity |
| <input type="checkbox"/> Final Abandonment Notice | <input type="checkbox"/> Casing Repair | <input type="checkbox"/> New Construction | <input type="checkbox"/> Recomplete | <input checked="" type="checkbox"/> Other Change of Proration Unit. |
| | <input type="checkbox"/> Change Plans | <input type="checkbox"/> Plug and Abandon | <input type="checkbox"/> Temporarily Abandon | |
| | <input type="checkbox"/> Convert to Injection | <input type="checkbox"/> Plug Back | <input type="checkbox"/> Water Disposal | |

13. Describe Proposed or Completed Operations (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 shall be filed once Testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

Yates Petroleum Corporation wishes to change the proration unit for the captioned well to lots 9, 10, 11, 12, 13, 14, 15, and 16. Please note attached C-102.

Thank you.

RECEIVED
SEP 12 PM 2 44
CARLSBAD FIELD OFFICE

14. I hereby certify that the foregoing is true and correct

Name (Printed/Typed)

Cy Cowan

Title

Regulatory Agent

Signature

Date

August 9, 2005

THIS SPACE FOR FEDERAL OR STATE USE

Approved by

/s/ Joe G. Lara

ACTING

Title

FIELD MANAGER

Date

SEP 13 2005

Conditions of approval, if any, are attached. Approval of this notice 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.

Office

CARLSBAD FIELD OFFICE

Title 18 U.S.C. Section 1001, 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)

DISTRICT I
1626 N. French Dr., Hobbs, NM 88240

DISTRICT II
611 South First, Artesia, NM 88210

DISTRICT III
1600 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

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

Form C-102
Revised March 17, 1999
Instruction on back
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 96068 | Pool Name Wildcat - MISS |
| Property Code | Property Name Temperate BEC Federal Com. | Well Number 1 |
| OGED No. 025575 | Operator Name YATES PETROLEUM CORPORATION | Elevation 3443' |

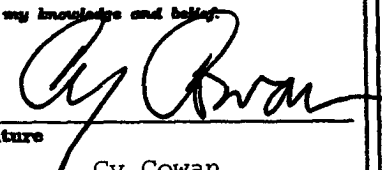
Surface Location

| UL or Lot No. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| Lots 9-16 | 6 | 21S | 29E | | 3960' | North | 660' | 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 300.64 | 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

| | | | | | | |
|-------|--|-----------|--|--|--|---|
| 3960' | | | | | | OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</i>  Signature Cy Cowan Printed Name Regulatory Agent Title August 9, 2005 Date |
| | | | | | | SURVEYOR CERTIFICATION <i>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.</i> REFER TO ORIGINAL PLAT. Date Surveyed Signature & Seal of Professional Surveyor Certificate No. Herschel L. Jones RLS 3640 GENERAL SURVEYING COMPANY |
| | | NM-029588 | | | | |
| 660' | | | | | | |

YATES PETROLEUM CORPORATION
Temperate BEC Federal Com. #1
 3960' FSL and 660' FWL
 Section 6, T21S-R29E
 Eddy County, New Mexico

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

| | | | |
|-----------------------------|-------|--------------|--------|
| Rustler | 850' | Strawn | 10970' |
| Capitan | 1800' | Atoka | 11320' |
| Delaware | 3250' | Morrow | 12005' |
| Bone Spring | 6540' | Lower Morrow | 12380' |
| 3 rd Bone Spring | 9460' | Chester | 12510' |
| Wolfcamp | 9840' | TD | 12600' |

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

Water: 210'
 Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE will be installed on the 9 5/8" casing and rated for 5000 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> | <u>Length</u> | WITNESS |
|------------------|--------------------|---------------|--------------|-----------------|-----------------|---------------|---------|
| 26" | 20" | 94# | H-40 | ST+C | 0-500' | 500' | |
| 17 1/2" | 13 5/8" | 61# | J-55 | ST+C | 0-1900' | 1900' | |
| 12 1/4" | 9 5/8" | 36# | J-55 | ST+C | 0-3250' | 3250' | |
| 8 3/4" | 5 1/2" | 20# | P-110 | LT+C | 0-100' | 100' | |
| 8 3/4" | 5 1/2" | 17# | L-80 | LT+C | 100'-3600' | 3500' | |
| 8 3/4" | 5 1/2" | 17# | J-55 | LT+C | 3600'-6500' | 2900' | |
| 8 3/4" | 5 1/2" | 17# | L-80 | LT+C | 6500'-9300' | 2800' | |
| 8 3/4" | 5 1/2" | 20# | P-110 | LT+C | 9300'-12600' | 3300' | |

Yates Petroleum Corporation requests a variance to install a rotating head on the surface casing strings when intermediate casing will be set. If a BOP system is required then we wish to install a 2M system and receive a variance to test the system to 1000# using the rig pumps. The test will be held for 30 minutes on each system component. Components to be tested include pipe rams, blind rams, and annular preventer.

Minimum Casing Design Factors: Collapse 1.125 Burst 1.0 Joint Strength 1.8

B. CEMENTING PROGRAM:

Surface casing: 750 sx Lite "C" (YLD 2.0 WT 12.4) tail in w/ 200 sx Class "C" + 2% CaCl₂ (YLD 1.32 WT 14.8).

1st intermediate casing: 1325 sx Lite (YLD 2.0 WT 12.4) tail in w/ 200 sx Class "C" + 2% CaCl₂ (YLD 1.32 WT 14.8).

2nd intermediate casing: Stage I: 450 sx Class "C" + 2% CaCl₂ (YLD 1.32 WT 14.8 DV Tool @ 2300'.
Stage II Lead w/ 725 sx Lite "C" (YLD 1.98 WT 12.4). Tail w/ 200 sx Class "C" + 2% CaCl₂ (YLD 1.32 WT 14.8).

Production Casing: Stage I 1250 sx "H" (YLD 1.21 Wt 15.6). DV Tool at 9600'.
Stage II 1500 sx Super 'H' (YLD 2.3 WT 11.5).

5. Mud Program and Auxiliary Equipment:

| <u>Interval</u> | <u>Type</u> | <u>Weight</u> | <u>Viscosity</u> | <u>Fluid Loss</u> |
|-----------------|------------------------|---------------|------------------|-------------------|
| 0-500' | FW/Gel/Spud Mud | 8.5-8.7 | 34-36 | N/C |
| 500'-1900' | FW/Brine | 10-10.4 | 29 | N/C |
| 1900'-3250' | Fresh Water | 8.4 | 28 | N/C |
| 3250'-11000' | Fresh Water | 8.5-9.5 | 28 | N/C |
| 11000'-TD | Salt Gel/Starch/2% KCL | 10.4-11 | 34-44 | <12cc |

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 intermediate casing to TD.

Logging: Platform Express; FMI

Coring: None anticipated.

DST's: None anticipated.

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

Anticipated BHP:

| | | | | | |
|-------|-------|-----|-------|----------------------|-----------|
| From: | 0 | To: | 500' | Anticipated Max. BHP | 225 PSI. |
| From: | 500' | To: | 1900' | Anticipated Max. BHP | 1025 PSI. |
| From: | 1900' | To: | 3250' | Anticipated Max. BHP | 1420 PSI. |
| From: | 3250' | To: | TD | Anticipated Max. BHP | 7200 PSI. |

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None.

H₂S Zones Anticipated: Possible in Canyon.

Maximum Bottom Hole Temperature: 187F.

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 15 days.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Yates Petroleum Corporation
Temperate BEC Federal Com. #1
3960' FSL and 660' FWL
Section 6, T21S-R29E
Eddy County, New Mexico

This plan is submitted with Form 3160-3, Application for Permit to Drill, covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved and the procedures to be followed in rehabilitating the surface after completion of the operations, so that a complete appraisal can be made of the environmental effect associated with the operations.

1. EXISTING ROADS:

Exhibit A is a portion of the BLM map showing the well and roads in the vicinity of the proposed location. The proposed wellsite is located approximately 13 miles northeast of Carlsbad, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go east of Carlsbad on Highway 62/180 for approximately 10.5 miles. This will be approximately 1.1 miles east past the sign for the Sandy Point Dump site on Highway 62/180. Turn right here and go approximately .3 of a mile. A well location will be on the right. Turn left here and follow road for approximately 2 miles. The new road will start here going north.

2. PLANNED ACCESS ROAD

The new access road will be approximately .2 of a mile in length from the point of origin to the southeast corner of the well pad.

3. LOCATION OF EXISTING WELL

- A. There is drilling activity within a one-mile radius of the wellsite.
- B. Exhibit D shows existing wells within a one-mile radius of the proposed wellsite.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES

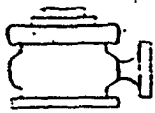
- A. There are no production facilities on this lease at the present time.
- B. In the event that the well is productive, the necessary production facilities will be installed on the drilling pad. If the well is productive oil, a gas or diesel self-contained unit will be used to provide the necessary power. No power will be required if the well is productive of gas.

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with a fresh water system. The water will be obtained from commercial sources and will be hauled to the location by truck over the existing and proposed roads shown in Exhibit A.

6. SOURCE OF CONSTRUCTION MATERIALS:

The dirt contractor will locate closest pit and will obtain any permits and materials for needed for construction.

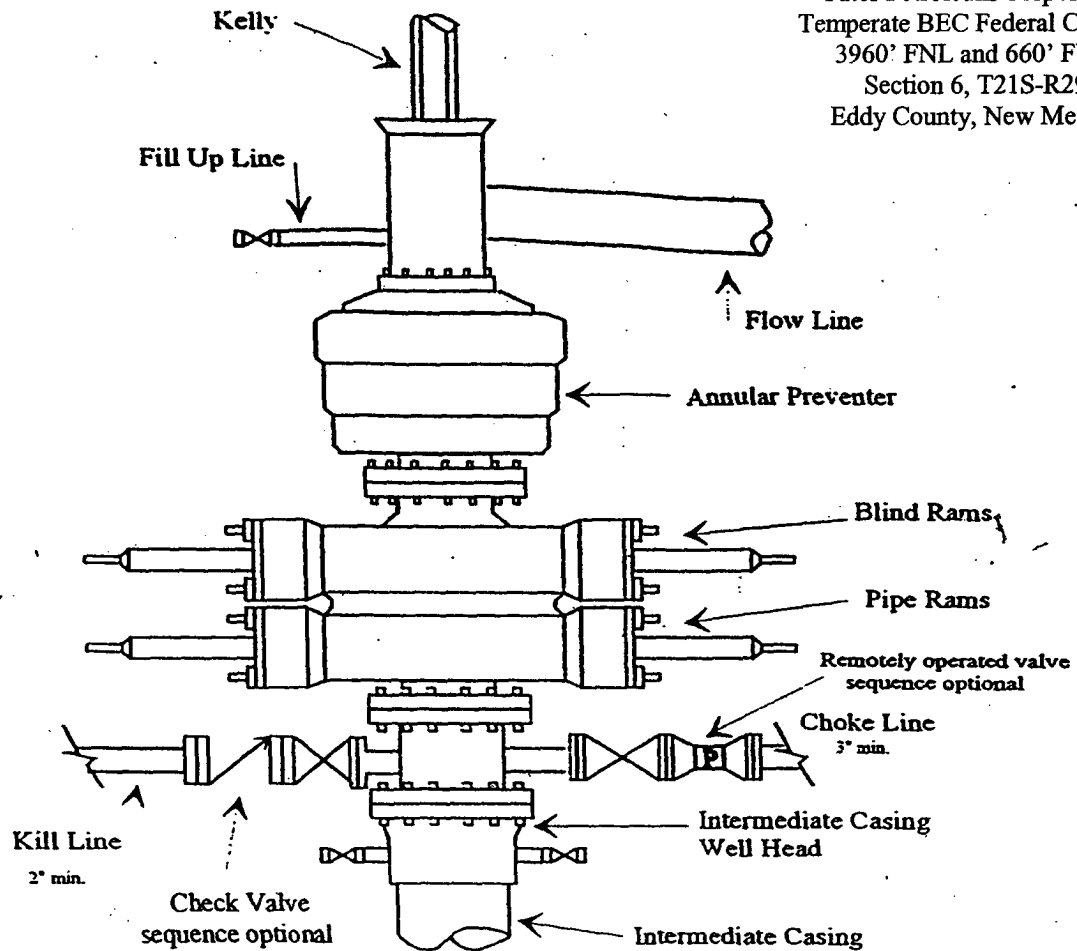


Yates Petroleum Corporation

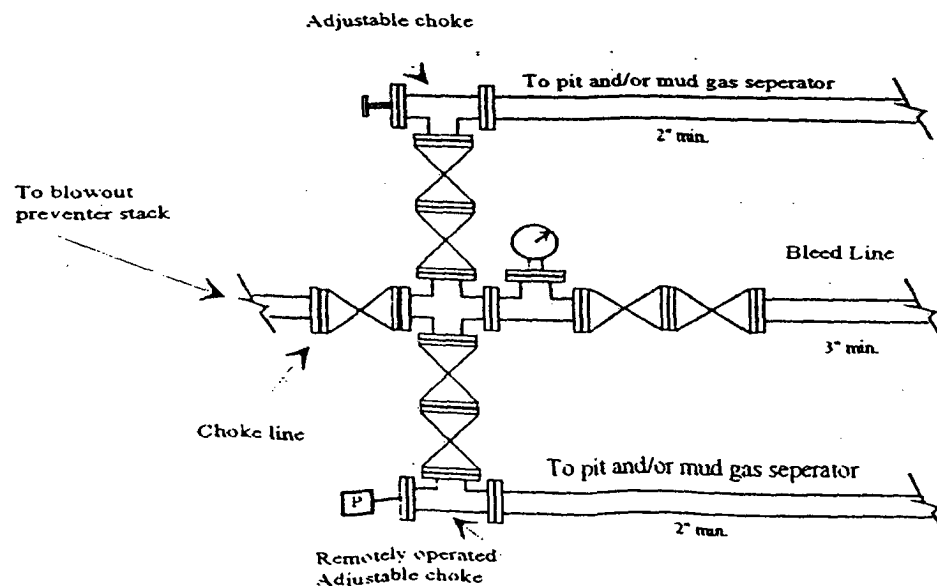
BOP-4

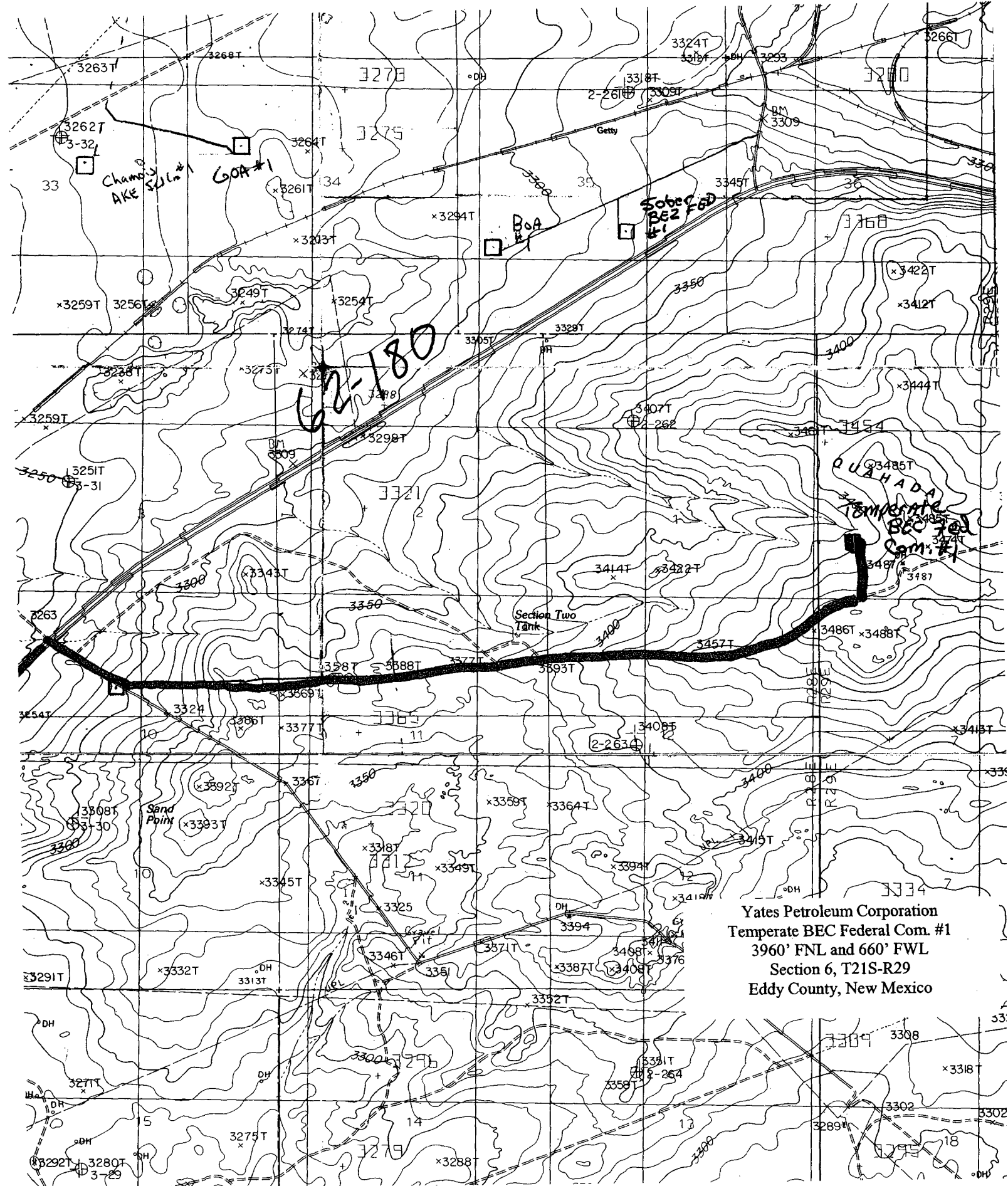
Typical 5,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack

Yates Petroleum Corporation
Temperate BEC Federal Com. #1
3960' FNL and 660' FWL
Section 6, T21S-R29
Eddy County, New Mexico



Typical 5,000 psi choke manifold assembly with at least these minimum features





Yates Petroleum Corporation
Temperate BEC Federal Com. #1
3960' FNL and 660' FWL
Section 6, T21S-R29
Eddy County, New Mexico

Yates Petroleum Corporation

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

Hydrogen Sulfide (H₂S) Contingency Plan

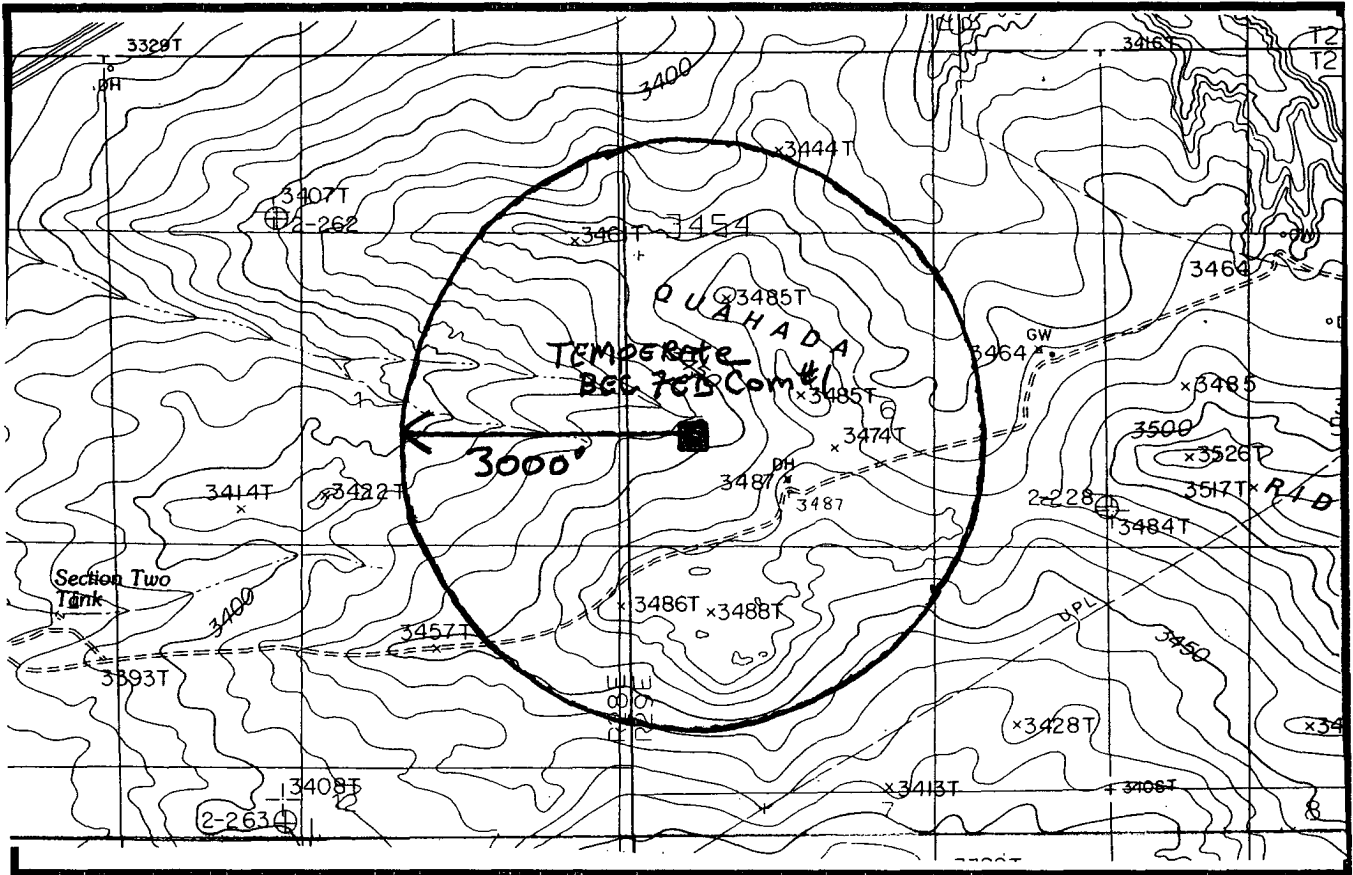
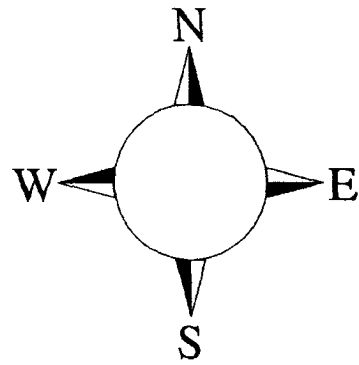
For

Temperate BEC Federal Com. #1

**3960' FNL, 660' FWL
Section-6, T-21S, R-29E
Eddy County NM**

Temperate BEC Federal Com. #1

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 H₂S = 3000
100 ppm H₂S concentration shall be used as determined by this plan.

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)

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 |

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Yates Petroleum Corporation
Well Name & No. Temperate BEC Federal Com #1
Location: 3960' FNL, 660' FWL, Section 6, T. 21 S., R. 29 E., Eddy County, New Mexico
Lease: NM-029588

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: 20 inch 13-3/8 inch 9-5/8 inch 5-1/2 inch

C. BOP tests

2. A Hydrogen Sulfide (H₂S) Drilling Operation Contingency Plan shall be activated prior to drilling into the 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 20 inch surface casing shall be set at approximately 500 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 13-3/8 inch first intermediate casing is to be circulated to the surface.

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

3. The minimum required fill of cement behind the 5-1/2 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

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...ailing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 5000 psi. A 2000 psi system may be used to drill the intermediate section of the well if necessary. Testing to 1000 psi is approved.

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.