

N.M. Oil Cons. Div-DIST 2
1301 W. Grand Avenue
Artesia, NM 88210

FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

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-113487
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator Nadel and Gussman Permian, LLC		7. If Unit or CA Agreement, Name and No.
3a. Address 601 N. Marienfeld, Suite 508 Midland, TX 79701		8. Lease Name and Well No. ⁸⁰¹¹ Highwayman Federal #1 35124
3b. Phone No. (include area code) 432-682-4429		9. API Well No. 30-015-34349
4. Location of Well (Report location clearly and in accordance with any State requirements:*) At surface 660' FSL & 1,430' FWL At proposed prod. zone Same		10. Field and Pool, or Exploratory HG (Morrow)
14. Distance in miles and direction from nearest town or post office* 24 road miles NE of Carlsbad, NM		11. Sec., T. R. M. or Blk. and Survey or Area UL N Sec. 19 T19S R30E
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 316	17. Spacing Unit dedicated to this well 316
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. N/A	19. Proposed Depth 12,200	20. BLM/BIA Bond No. on file NM 2812
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3,360'	22. Approximate date work will start* 06/01/2005	23. Estimated duration 42 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 officer. |

25. Signature <i>Josh Fernau</i>	Name (Printed/Typed) Josh Fernau	Date 04/06/2005
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Title
Staff Engineer

Approved by (Signature) /s/ Jesse J. Juen	Name (Printed/Typed) /s/ Jesse J. Juen	Date SEP 19 2005
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Title
FOR STATE DIRECTOR NM STATE 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 page 2)

WITNESS

13³/₈" AND 9⁵/₈"
CEMENT JOBS

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

DISTRICT IV
2040 South Pacheco, Santa Fe, NM 87505

Energy, Minerals and Natural Resources Department.

Form C-102
Revised March 17, 1999

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

2040 South Pacheco
Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

API Number		Pool Code	Pool Name
Property Code	Property Name HIGHWAYMAN FEDERAL		Well Number 1
OGRID No.	Operator Name NADEL AND GUSSMAN PERMIAN		Elevation 3360'

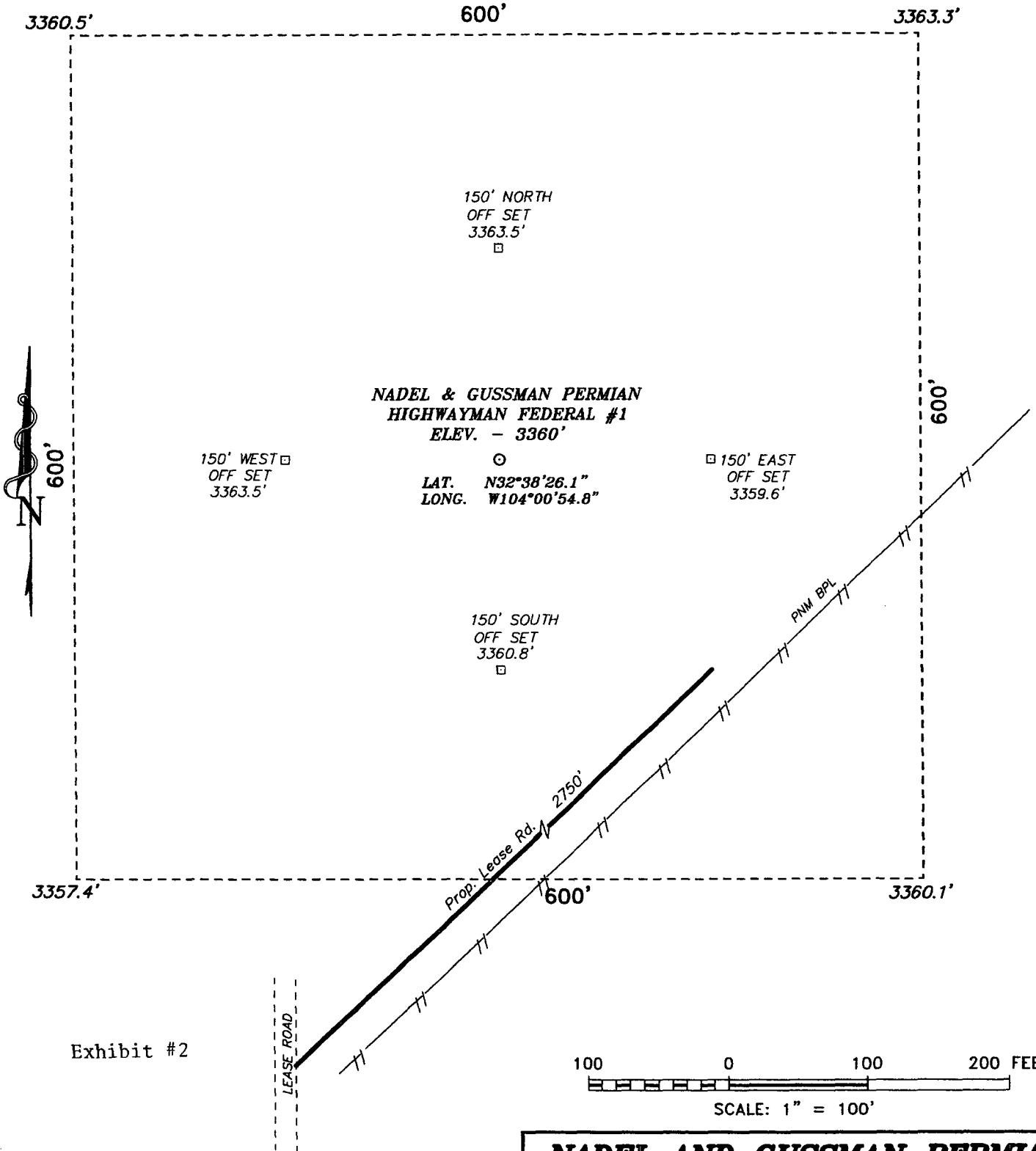
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	19	19 S	30 E		660	SOUTH	1430	WEST	EDDY

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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Dedicated Acres 316	Joint or Infill	Consolidation Code	Order No.
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<p>LOT 1 39.17 AC</p>		<p>OPERATOR CERTIFICATION</p> <p><i>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</i></p> <p><u><i>J. Fernau</i></u> Signature</p> <p><u>Josh Fernau</u> Printed Name</p> <p><u>Staff Engineer</u> Title</p> <p><u>04/06/05</u> Date</p>
<p>LOT 2 39.18 AC</p>		
<p>LOT 3 39.20 AC</p>		<p>SURVEYOR CERTIFICATION</p> <p><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></p> <p><u>FEBRUARY 2, 2005</u> Date Surveyed</p> <p><u>GARY L. JONES</u> Signature & Seal of Professional Surveyor</p> <p><u>7977</u> Certificate No.</p> <p>BASIN SURVEYS</p>
<p>LOT 4 39.21 AC</p> <p>1430'</p> <p>3360.5'</p> <p>3363.3'</p> <p>3357.4'</p> <p>660'</p> <p>3360.1'</p>	<p>Lat.: N32°38'26.1" Long.: W104°00'54.8"</p>	

SECTION 19, TOWNSHIP 19 SOUTH, RANGE 30 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.



Directions to Location:

FROM THE JUNCTION OF STATE HWY 360 AND CO.
RD. 235, GO WEST ON HWY 235 FOR APPROX. 4.0
MILES TO LEASE ROAD; THENCE NORTH ON LEASE
ROAD FOR 0.2 MILE TO PROPOSED LEASE ROAD.

BASIN SURVEYS P.O. BOX 1786-HOBBS, NEW MEXICO

W.O. Number: 5169 Drawn By: K. GOAD

Date: 03-03-2005 Disk: KJG #9 - 5169A.DWG

NADEL AND GUSSMAN PERMIAN

REF: HIGHWAYMAN FEDERAL No. 1 / Well Pad Topo

HIGHWAYMAN FEDERAL No. 1 LOCATED 660' FROM
THE SOUTH LINE AND 1430' FROM THE WEST LINE OF
SECTION 19, TOWNSHIP 19 SOUTH, RANGE 30 EAST,
N.M.P.M., EDDY COUNTY, NEW MEXICO.

Survey Date: 03-02-2005 Sheet 1 of 1 Sheets

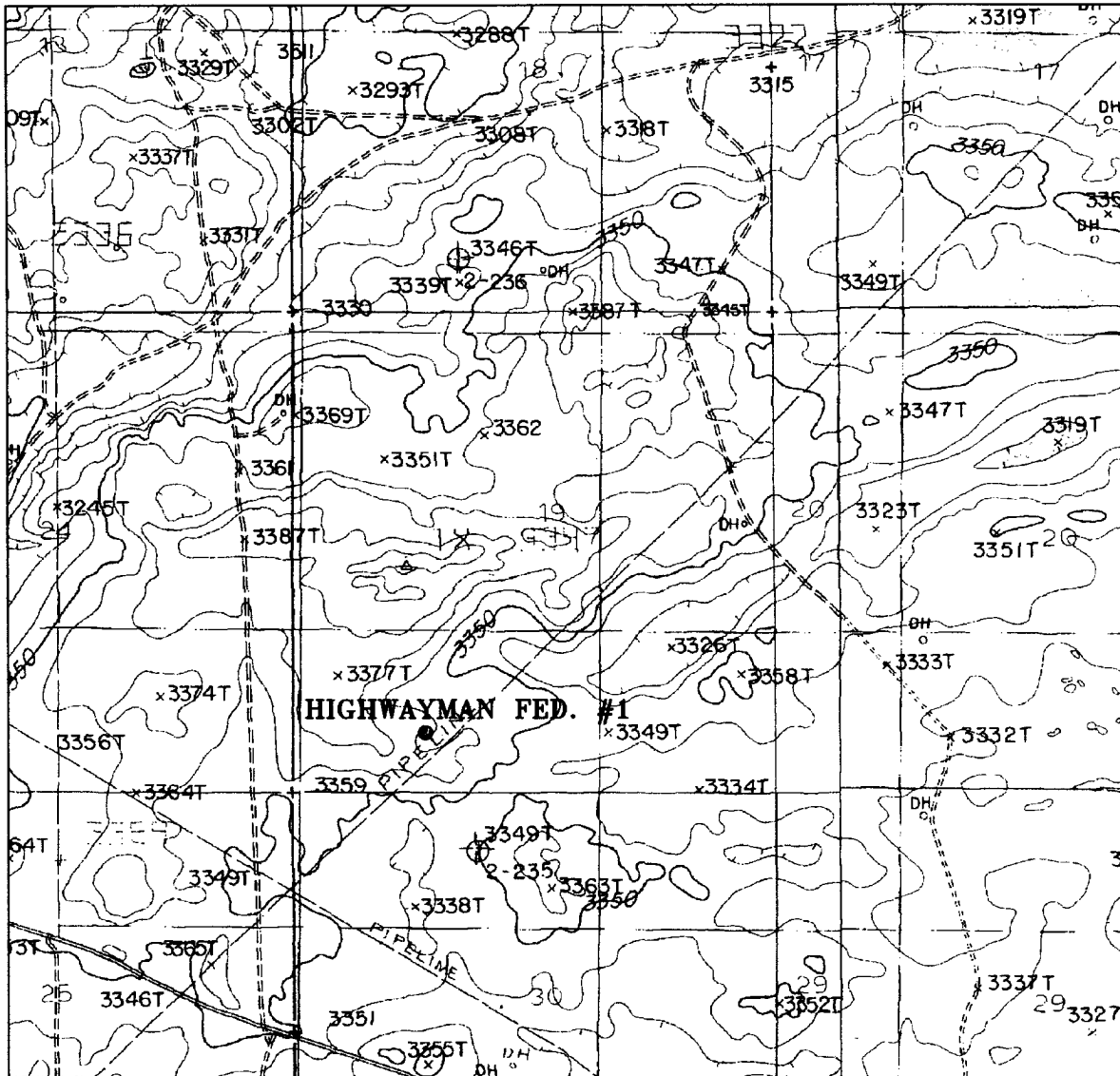
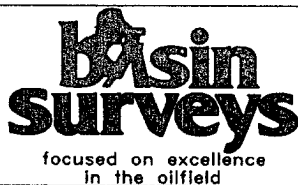


Exhibit #5

HIGHWAYMAN FEDERAL #1

Located at 660' FSL and 1430' FWL

Section 19, Township 19 South, Range 30 East,
N.M.P.M., Eddy County, New Mexico.



P.O. Box 1786
1120 N. West County Rd.
Hobbs, New Mexico 88241
(505) 393-7316 - Office
(505) 392-3074 - Fax
basinsurveys.com

W.O. Number: 5169AA - KJG #1

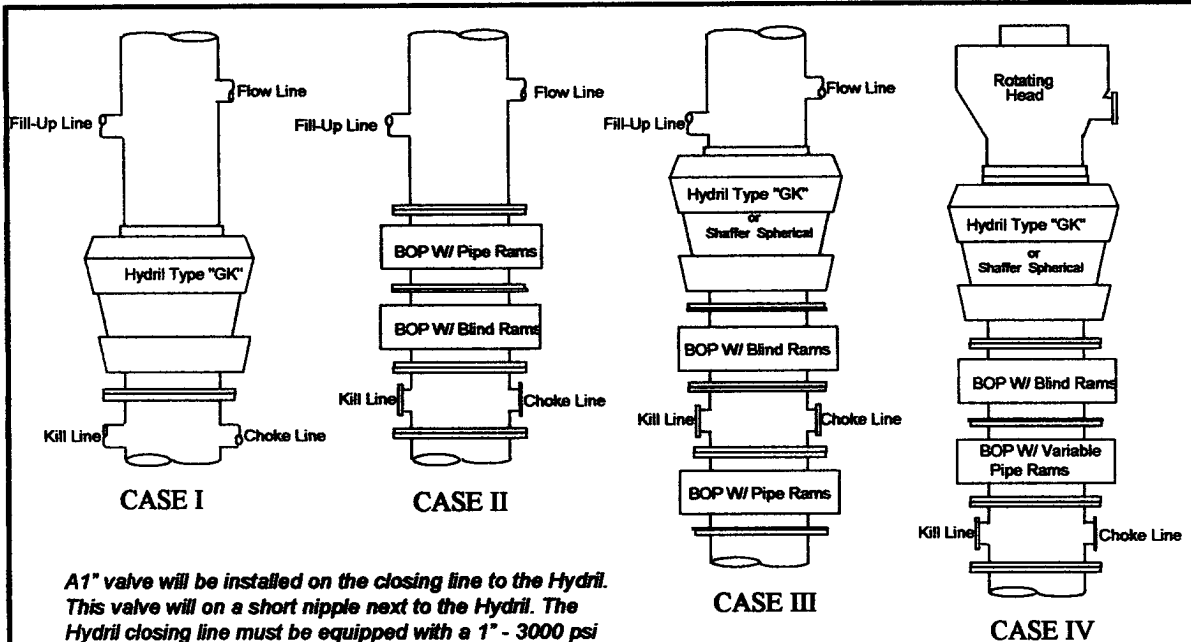
Survey Date: 03-02-2005

Scale: 1" = 2000'

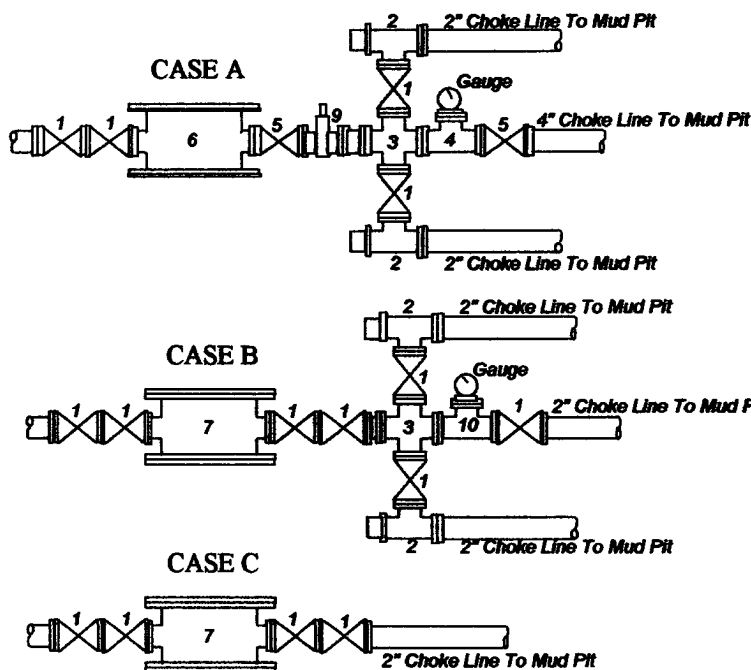
Date: 03-03-2005

**NADEL AND
GUSSMAN PERMIAN,
L.L.C.**

Nadel and Gussman Permian MINIMUM BLOWOUT PREVENTER REQUIREMENTS



A1" valve will be installed on the closing line to the Hydril. This valve will on a short nipple next to the Hydril. The Hydril closing line must be equipped with a 1" - 3000 psi WP plug valve on the nipple into the Hydril.



BOP SIZE	BOP CASE	WORKING PRESSURE	CHOKE CASE
13 5/8"	IV	5000 #	A

**Rotating head required*

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

Exhibit #6

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.

(10-31-96) WTXBOPS.PPT

13 Point Drilling Plan:

1. Location: (SHL) 660' FSL & 1,430' FWL, Sec. 19, T-19-S, R-30-E, Eddy County, New Mexico
(Form C-102)
2. Elevation: 3,360' GL
3. Geological Name of Surface Formation: The soils are classified as Tonuco Loamy fine sands series.
4. Type of Drilling Tools to be utilized: Rotary Tools
5. Proposed Drilling Depth: 12,200'
6. Tops of Important Geological Markers:

Capitan Reef	1,740'	Bone Spring	6,145'	Atoka	11,154'
Yates	1,904'	Wolfcamp	9,660'	Morrow Clastics	11,574'
Delaware	4,250'	Strawn	10,544'	Lower Morrow	11,864'

7. Estimated Depth of Anticipated Water, Oil or Gas:

Oil	-Delaware	4,250'
Oil	-Bone Spring	6,145'
Oil	-Wolfcamp	9,660'
Gas	-Atoka	11,154'
Gas	-Morrow Clastics	11,574'

8. Casing Program:

Hole Size	Interval	OD Casing	Weight Grade Jt.	Cement
17 1/2"	0-400'	13 3/8"	48# H-40	Surface
12 1/4"	0-3,600'	9 5/8"	40# N-80 or P-110	Surface
8 3/4"	0-12,200'	5 1/2"	17# S-95 and 20# P-110	TOC 3,600'

9. Specifications for Pressure Control Equipment: (Exhibit #6)

This rig will have a 13 5/8" 5M BOP Shaffer with pipe rams and blind rams, kill line, 10,000 psi choke manifold, Camron hydraulic controls, and accumulator with remote controls. When nipping up, will test BOP and choke to 1,000 psi, will operate BOP once a day or as directed by the company representative. *Will test 9 5/8" CSG using 3rd party tester to 75% OF INTERNAL YIELD STRENGTH.*

10. Mud Program:

The well will be drilled to TD with a combination of brine, cut brine, and XCD Polymer mud system.

Depth	Type	Wt	Viscosity	Waterloss
0-400'	FW	8.4#	28-34	NC
400'-3,600'	BW	8.4#	30-32	NC
12,200'-TD	CB/XCD-PLY	8.8-10.0#	32-45	10

Will switch to Fresh Water if Reef is encountered and lost

WITNESS

11. Testing, Logging & Coring Program:

- a. Testing: No DST's are expected.
- b. Coring: no coring is planned.
- c. Logging: open hole logs will be run prior to running production casing. The standard suite will be a Dual Lateral/ ML and GR/Density/Neutron combination.
- d. Depending on the sand quality, a FMI and/or formation tester may be run.
- e. Open hole logs will not be run through the surface hole section.

12. Potential Hazards:

No significant hazards are expected. Lost circulation may occur, no H₂S expected, but the operator will utilize a 3rd party H₂S monitoring package from 3,600' to TD.

13. Anticipated Starting Date & Duration:

Plans are to begin drilling operations about June 1, 2005, approximately 42 days will be required to drill the well and 10 days will be needed for the completion.

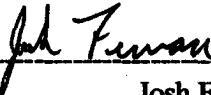
Hydrogen Sulfide Drilling Operations Plan

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 **Exhibit #6**.
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.

12. Operator's Representative -

Joel Martin	Office Phone	(432) 682-4429
	Home Phone	(432) 694-2569
	Mobile Phone	(432) 238-9969
Josh Fernau	Office Phone	(432) 682-4429
	Home Phone	(806) 978-1523
	Mobile Phone	(432) 238-2874
Teddy Rowland	Office Phone	(505) 746-1428
	Home Phone	(505) 746-4970
	Mobile Phone	(505) 513-1499

13. Certification - I hereby certify that I, or persons under my direct supervision, have inspected the proposed drilling site and access route; that I am familiar with the condition which presently exists; 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 a construction company or their contractors and sub-contractors in conformity with this plan.



Josh Fernau
Staff Engineer
Date: 04/06/05

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: NADEL AND GUSSMAN PERMIAN, LLC
Well Name & No. 1 – HIGHWAYMAN FEDERAL
Location: 660' FSL & 1430' FWL – SEC 19 – T19S – R30E – EDDY COUNTY
Lease: NM-113407

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 for wells in Chaves and Roosevelt Counties; the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 234-5909 or (505) 361-2822 (After hours) - for wells in Eddy County; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 13-3/8 inch 9-5/8 inch 5-1/2 inch

C. BOP tests

2 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.

3. 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.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

5. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. The 13-3/8 inch surface casing shall be set at 400 feet or 25 feet into the top of the Rustler Anhydrite, below usable water 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 salt protection casing is circulate cement to the surface. Upon loss of circulation in the Capitan Reef, the operator will notify the PET staff at the appropriate office to arrange for witnessing of the change to fresh water.

3. The minimum required fill of cement behind the 5-1/2 inch production casing is cement shall extend upward a minimum of 500 feet above the uppermost hydrocarbon bearing interval.

DRIG. SGD. LES BABYAK

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) required for drilling the surface and intermediate casing shall be 2000 psi. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the 9-5/8 inch casing shall be 5000 psi.
3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.
 - A variance to test the 13-3/8 inch surface casing and BOP to the reduced pressure of 1000 psi with the rig pumps is approved.
 - 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.
 - BOPE must be tested prior to drilling into the Wolfcamp Formation by an independent service company.

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:

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