

Form 3160-3
(April 2004)

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NOV 09 2005

OCD-ARTESIA

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 34461
1b. 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 MURCHISON OIL & GAS, INC. 15363		7. If Unit or CA Agreement, Name and No. 35310
3a. Address 1100 MIRA VISTA BLVD. PLANO, TX. 75093-4698	3b. Phone No. (include area code) (972) 931-0700 86500	8. Lease Name and Well No. MUSTANG FED COM #1
4. Location of Well (Report location clearly and in accordance with any State requirements.)* At surface 960' 660' FNL & 990' FEL per attached SN dated 7/28/05 At proposed prod. zone		9. API Well No. 30 - 015 - 34475
10. Field and Pool, or Exploratory TURKEY TRACK N. MORROW		11. Sec., T. R. M. or Blk. and Survey or Area SEC. 21, T18S-R29E
12. Distance in miles and direction from nearest town or post office* 21 MILES SE OF ARTESIA, NM.		12. County or Parish EDDY
13. State NM		
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 240	17. Spacing Unit dedicated to this well 320 AC.
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. N/A	19. Proposed Depth 11400'	20. BLM/BIA Bond No. on file
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3507' GL	22. Approximate date work will start* 10/01/2005	23. Estimated duration 40 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.
2. A Drilling Plan.
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).
4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
5. Operator certification
6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature <i>Michael S. Daugherty</i>	Name (Printed/Typed) MICHAEL S. DAUGHERTY	Date 06/29/2005
Title VICE PRESIDENT OPERATIONS		

Approved by (Signature) /s/ James Stovall	Name (Printed/Typed) /s/ James Stovall	Date NOV 08 2005
Title 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 page 2)

RECEIVED

JUN 30 '06

BLM
ROSWELL, NM

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

Witness Surface Casing

Captain Controlled Water Basin

State of New Mexico

Energy, Minerals and Natural Resources Department

DISTRICT I

1626 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

OIL CONSERVATION DIVISION

1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102

Revised JUNE 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name TURKEY TRACK MORROW
Property Code	Property Name MUSTANG FEDERAL COM.	Well Number 1
OGRID No. 015363	Operator Name MURCHISON OIL & GAS, INC.	Elevation 3496'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	21	18-S	29-E		960	NORTH	990	EAST	EDDY

Bottom Hole Location If Different From Surface

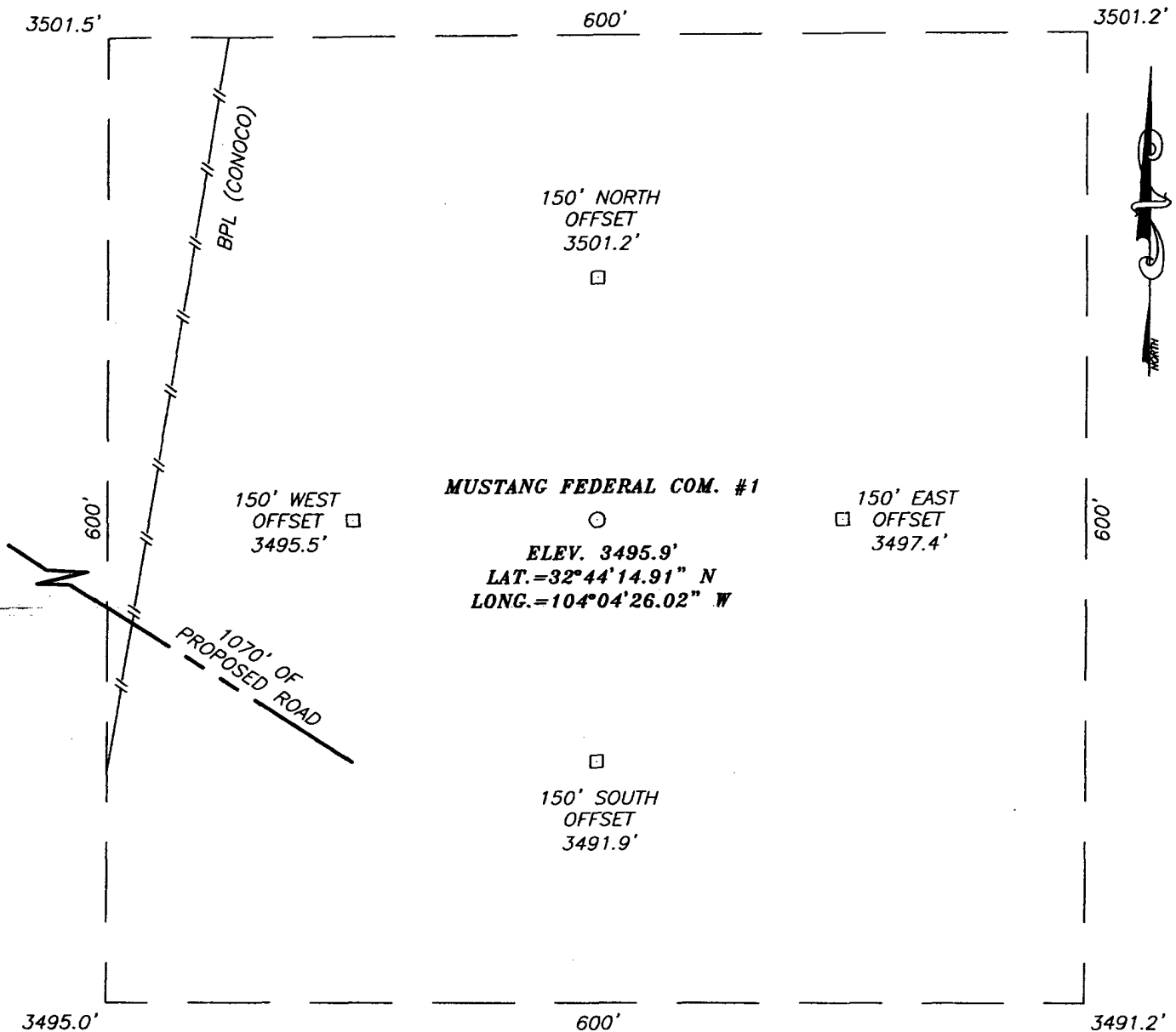
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 320	Joint or Infill 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

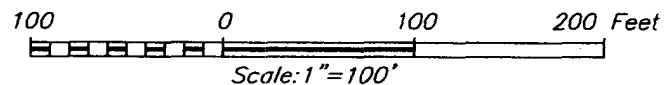
<p>EXISTING WELL</p> <p>SPACING UNIT</p> <p>GEODETIC COORDINATES NAD 27 NME Y=632102.5 N X=579774.1 E LAT.=32°44'14.91" N LONG.=104°04'26.02" W</p>	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Michael S. Daugherty</i> Signature</p> <p>MICHAEL S. DAUGHERTY Printed Name</p> <p>V.P. OPERATIONS Title</p> <p>7/28/2005 Date</p> <p>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>JULY 14, 2005</p> <p>Date Surveyed</p> <p><i>G. EIDSON</i> Signature & Seal of Professional Surveyor</p> <p>NEW MEXICO REGISTERED PROFESSIONAL SURVEYOR 05.11.1103</p> <p>Certified by GARY EIDSON 12841</p>
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SECTION 21, TOWNSHIP 18 SOUTH, RANGE 29 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

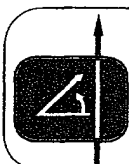
FROM THE INTERSECTION OF ST. HWY. #360 (BLUESTEM RD.) AND CO. RD. #210 (OLD LOCO RD.). GO NW ON ST. HWY. #360 APPROX. 1.1 MILES AND TURN RIGHT (NORTH) AND GO APPROX. 500' TO PROPOSED ROAD SURVEY ON THE RIGHT. THIS LOCATION IS APPROX. 212' SE ALONG PROPOSED ROAD SURVEY.



MURCHISON OIL & GAS, INC.

MUSTANG FEDERAL COM. #1 WELL
 LOCATED 960 FEET FROM THE NORTH LINE
 AND 990 FEET FROM THE EAST LINE OF SECTION 21,
 TOWNSHIP 18 SOUTH, RANGE 29 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO.

Survey Date: 06/14/05	Sheet 1 of 1 Sheets
W.O. Number: 05.11.1107	Dr By: DEL Rev 1:N/A
Date: 07/18/05	Disk: CD#4 05111107 Scale: 1"=100'

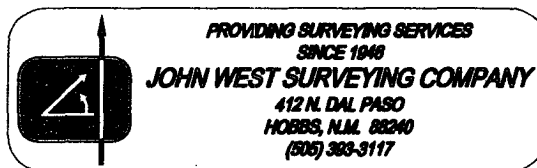


PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 383-3117



CONTOUR INTERVAL:
ILLINOIS CAMP NE, N.M. - 10'

U.S.G.S. TOPOGRAPHIC MAP
ILLINOIS CAMP NE, N.M.



VIA FEDERAL EXPRESS

June 29, 2005

United States Department of the Interior
Bureau of Land Management
Roswell District Office
2909 West Second Street
Roswell, New Mexico 88201
Attn: Linda Askawik

**Re: Application for Permit to Drill
Murchison Oil & Gas, Inc.
Mustang Federal Com #1
Eddy County, New Mexico
Lease No. NM-34461**

Gentlemen:

Murchison Oil & Gas, Inc. "MOGI" respectfully requests permission to drill our Mustang Federal Com #1 located 660' FNL and 990' FEL of Section 21, T18S, R29E, Eddy County, New Mexico, Federal Lease No. NM-34461. The proposed well will be drilled to a TD of approximately 11400' (TVD). The location and work area have been staked. It is approximately 21 miles SE of Artesia, NM.

In accordance with requirements stipulated in Federal Onshore Oil and Gas Order No. 1 under 43 CFR 3162.1, our Application for Permission to Drill and supporting evidence is hereby submitted.

I. Application for Permit to Drill:

1. Form 3160-3, Application for Permit to Drill.
2. Form C-102 Location and Acreage Dedication Plat certified by Gary Eidson Registered Land Surveyor No. 12641 in the State of New Mexico, dated 6/22/2005.
3. The elevation of the unprepared ground is 3507 feet above sea level.
4. The geologic name of the surface formation is Permian Rustler.
5. Rotary drilling equipment will be utilized to drill the well to TD 11400' (TVD), and run casing. This equipment will then be rigged down and the well will be completed with a pulling unit.
6. Proposed total depth is 11400' TVD.

7. Estimated tops of important geologic markers. (KDB EST @ 3524')

Yates	1040'	TVD
Queen	1985'	TVD
Grayburg	2332'	TVD
San Andres	2748'	TVD
First Bone Spring Sd	6536'	TVD
Second Bone Spring Sd	7596'	TVD
Third Bone Spring Sd	8238'	TVD
Wolfcamp	8539'	TVD
Cisco	9663'	TVD
Canyon	9887'	TVD
Strawn	10086'	TVD
Atoka	10432'	TVD
Atoka "Pay"	10602'	TVD
Morrow "A"	11077'	TVD
Morrow "C"	11202'	TVD
Morrow "D"	11310'	TVD
Base Penn.	11334'	TVD
Total Depth	11400'	

8. Estimated depths at which anticipated water, oil, gas or other mineral bearing formations are expected to be encountered:

Primary Objective: Morrow 11077' TVD

Secondary Objectives: Strawn 10086' TVD

9. The proposed casing program is as follows:

Surface: 13-3/8" OD 48# H40 ST&C casing set at ~~400'~~ ^{See COA}

1st Intermediate: 9-5/8" OD 47# N80 ST&C casing from 0 to 3000'

Production Casing: 5-1/2" OD 17# S-95 & L-80 LT&C from surface to 11400'

10. Casing setting depth and cementing program:

- A. 13-3/8" surface casing set at ~~400'~~ ^{See COA}, or the top of the Rustler Anhydrite, in 17-1/2" hole. Circulate cement with 350 sx of Class C cement with additives. **WITNESS**

If cement does not circulate, a temperature survey will be run to find the TOC and then finish cementing to surface through 1" using Class C with 2% CaCl₂.

- B. 9-5/8" 1st intermediate casing set at 3000' in 12-1/4" hole. Circulate cement with 1000 sxs Class C with additives.

If hole conditions dictate, a DV tool may be run to ensure that the intermediate string is cemented to surface.

If cement does not circulate, a temperature survey will be run to find the TOC and then finish cementing to surface through 1" using Class C with 2% CaCl₂.

C. 5-1/2" Production Casing will be set if warranted from surface to TD in a 8-3/4" hole. Cement with 600 sx of Class "H" with additives.

11. Pressure Control Equipment

0' – 400'	None
400' – 3000'	13-3/8" 3000# ram type preventers with one set blind rams and one set pipe rams.
3000' – 11400'	11" 5000# ram type preventers with one set blind rams and one set pipe rams and a 3000# annular type preventer. A choke manifold and 120 gallon accumulator with floor and remote operating stations and auxiliary power system. Rotating head below 6000'. See attached Sketch of BOP Equipment.

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.

After setting the 9-5/8" casing, the blowout preventers and related control equipment shall be pressure tested to 5000 psi and 3000 psi respectively. Any equipment failing to test satisfactorily shall be repaired or replaced. Results of the BOP test will be recorded in the Driller's Log.

The BOP's will be maintained ready for use until drilling operations are completed.

BOP drills will be conducted as necessary to assure that equipment is operational and each crew is properly trained to carry out emergency duties.

Accumulator shall maintain a pressure capacity reserve at all times to provide for the close-open-

close sequence of the blind and pipe rams of the hydraulic preventers.

12. Mud Program:

0 – 400'	Fresh water/native mud. Wt. 8.4 ppg, vis 32-34 sec, Lime for pH control. Paper for seepage. Lost circulation may be encountered.
400' – 3000'	Fresh water 8.4 ppg, vis 28-29 sec. Add 10# brine as make-up to avoid excessive washouts in salt stringers. Caustic for pH control. Paper for seepage. Lost circulation may be encountered.
3000' – 8500'	Fresh water. Wt. 8.4 ppg, vis 28-29 sec, caustic for pH control. Paper for seepage.
8500' – 10400'	Cut brine. Wt. 9.2 – 9.4 ppg, vis 28-29 sec, caustic for pH control.
10400' – 11400'	Mud up with an XCD Polymer mud system with the following characteristics: Wt. 10.0, Vis 32-40 sec, WL 6-8cc.

Mud system monitoring equipment with derrick floor indicators and visual/audio alarms shall be installed and operative prior to drilling into the Wolfcamp formation. This equipment will remain in use until the production casing is run and cemented. Monitoring equipment shall consist of the following:

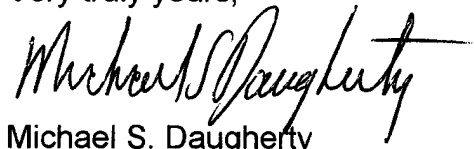
- 1) A recording pit level indicator.
- 2) A pit volume totalizer.
- 3) A flowline sensor.

13. Testing, Logging and Coring Program:

- A. Testing program: None.
- B. Mud logging program: Two man unit from 3000' to TD.
- C. Electric logging program: CNL/LDT/CAL/GR, DLL/CAL/GR.
- D. Coring program: Possible sidewall rotary cores.

14. No abnormal temperatures, or H₂S gas are anticipated. Adequate flare lines will be installed off the mud/gas separator where gas may be flared safely.
15. Anticipated starting date is October 1, 2005. It should take approximately 40 days to drill the well and another 10 days to complete.
16. A statement accepting responsibility for operations is attached.
17. The Multi-Point Surface Use & Operation Plan is attached.
18. If the Bureau of Land Management needs additional information to evaluate this application, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael S. Daugherty". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Michael S. Daugherty
Vice President, Operations

MSD/cb/MustangFdCm#1-BLM-APTD

Attachments

UNITED STATES DEPARTMENT OF THE INTERIOR
Bureau of Land Management
Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201-1287

Statement Accepting Responsibility for Operations

Operator Name: MURCHISON OIL & GAS, INC.
Street or Box: 1100 MIRA VISTA BLVD.
City, State: PLANO, TX.
Zip Code: 75093-4698

The undersigned accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land or portion thereof, as described below:

Lease No.: NM-34461

Legal Description of Land: NE/4
SECTION 21, T18S, R29E

Formation (s) (if applicable): FROM THE SURFACE DOWN TO 11400'

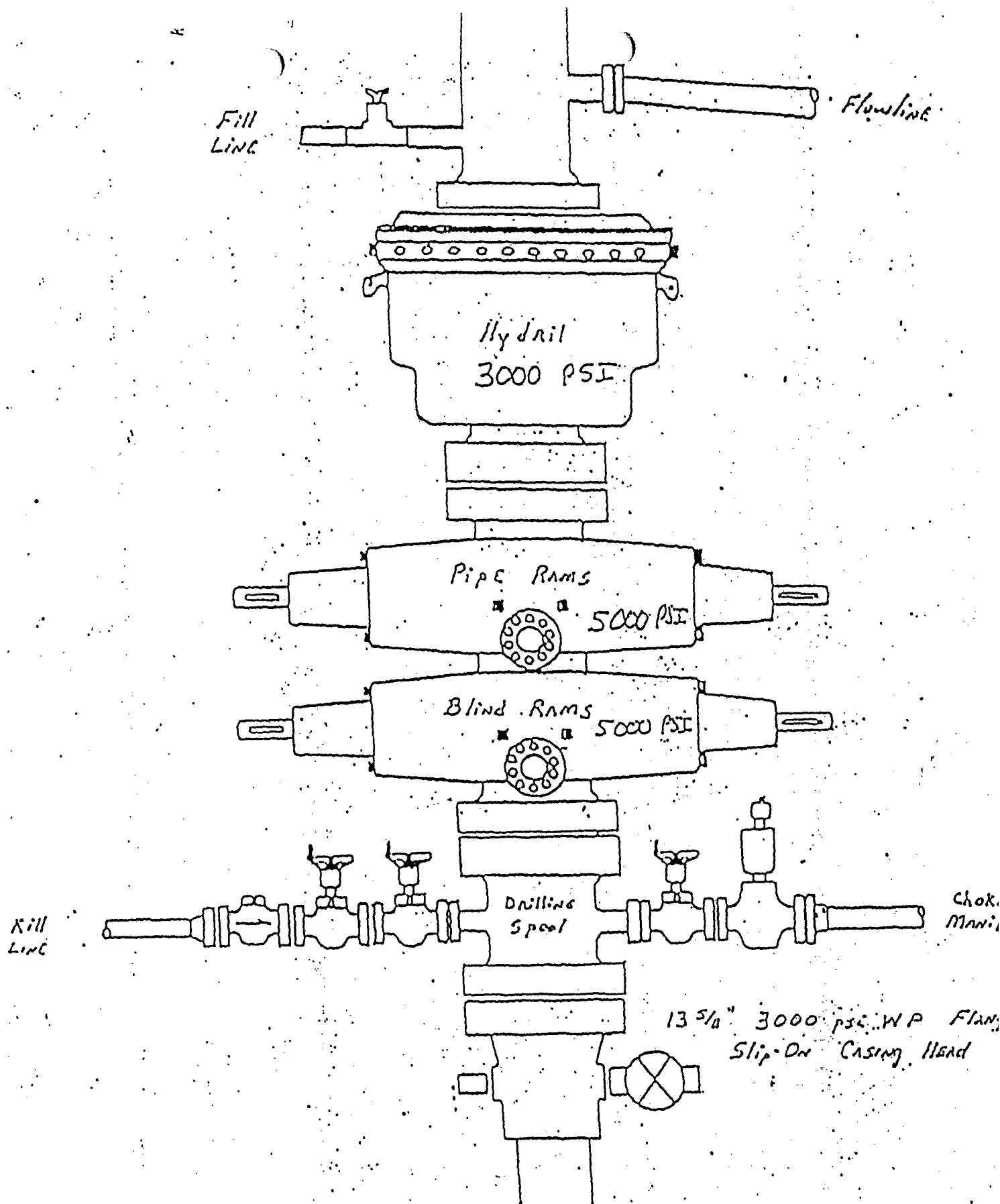
Bond Coverage (State if individually bonded or another's bond):
PERSONAL STATEWIDE BOND

BLM Bond File No.: NM2163

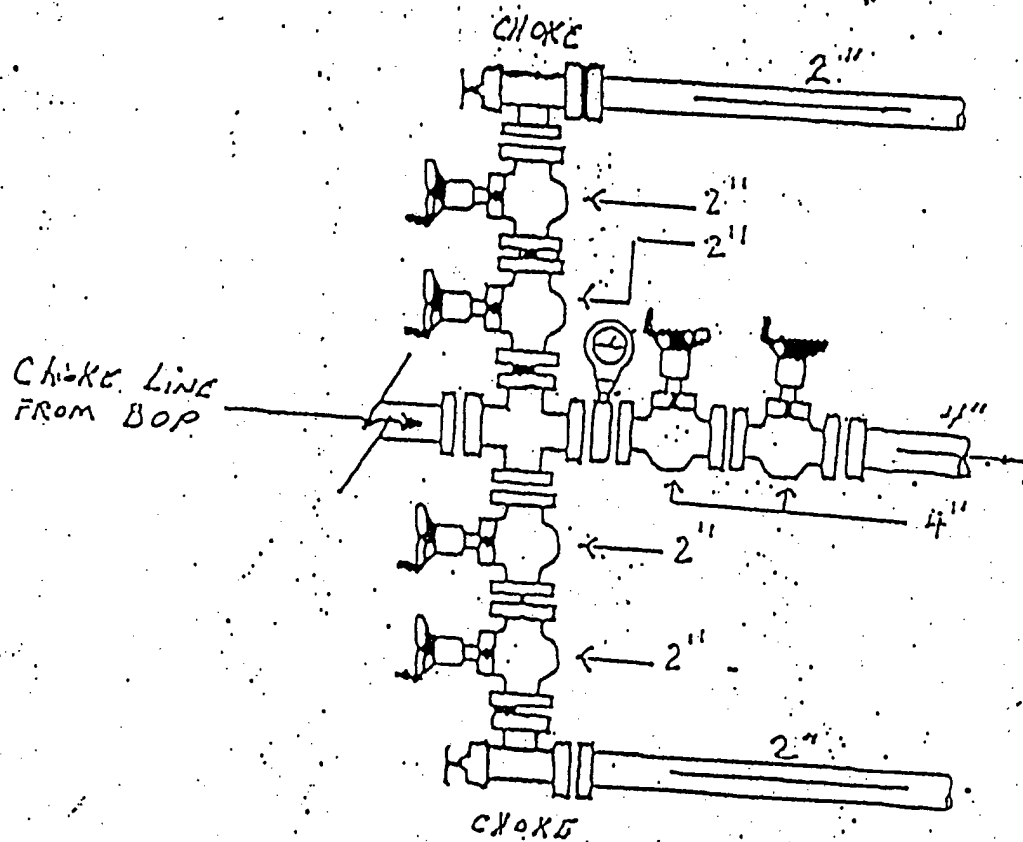
Authorized Signature: 
MURCHISON OIL & GAS, INC.

Title: MICHAEL S. DAUGHERTY
VICE PRESIDENT OPERATIONS

Date: 6/29/2005



MURCHISON OIL & GAS, INC.
 MUSTANG FEDERAL COM #1
 660' FNL & 990' FEL
 EDDY CO., NM.



MURCHISON OIL & GAS, INC.
 MUSTANG FEDERAL COM #1
 660' FNL & 990' FEL
 EDDY CO., NM.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Murchison Oil & Gas, Inc.
Well Name & No. Mustang Federal Com #1
Location: 960' 666' FNL, 990' FEL, Section 21, T. 18 S., R. 29 E., Eddy County, New Mexico
Lease: per attached NM-34461
SP dated 7/28/05 FAIR

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: 13-3/8 inch 9-5/8 inch 5-1/2 inch liner
 - 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. 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 13-3/8 inch surface casing shall be set at approximately 250 feet or 25 feet into the top of the Rustler and circulate cement 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 first 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 13-3/8 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) shall be 3000 psi.
3. Minimum working pressure of the blowout preventer and related equipment (BOPE) below the 9-5/8 inch

intermediate casing shall be 5000 psi.

5. 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.

07/07/5004

acs



VIA CERTIFIED MAIL

December 5, 2005

State of New Mexico
Oil Conservation Division – District II
1301 W. Grand Avenue
Artesia, NM. 88210

RECEIVED
DEC 9 2005
OCD-ARTESIA

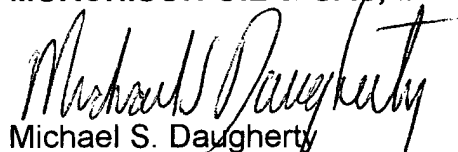
**RE: NMOCD Rule 19.15.3.104
Mustang Fed Com #1
Eddy Co., NM.**

Ladies and Gentlemen:

Murchison Oil and Gas, Inc. ("MOGI") in compliance with NMOCD Rule 19.15.3.104(E) 2 requests that it be permitted to operate the Mustang Fed Com #1 to be located 900' FNL and 990' FEL of Section 21, T18S, R29E in Eddy Co., NM. The N/2 of Section 21 is the designated Proration Unit and currently has a producing well the Empire Federal 21A in the NW/4 which is operated by Sabre Operating Inc. MOGI has an agreement with Sabre granting it the right to operate the Mustang Fed Com #1. MOGI has already applied for an APD with the BLM and has received its approval. Please contact me if you need further information. Thank you for your assistance in this matter.

Very truly yours,

MURCHISON OIL & GAS, INC.


Michael S. Daugherty
Vice President Operations

MSD/ct/MustangFC#1-NMOCD-Rule104

**J.D. MURCHISON INTERESTS, INC.**

MURCHISON OIL & GAS, INC.

MURCHISON PROPERTIES, INC.

November 17, 2005

OPERATIONS SHARING AGREEMENT

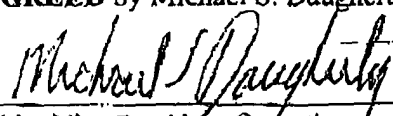
Murchison Oil & Gas, Inc. (MOGI) and Sabre Operating Inc. hereby agree that MOGI may drill, complete, produce and otherwise operate the Mustang Federal Corn #1 well at a location of 900' FNL & 990' FEL of Section 21, Township 18 South, Range 29 East, which is in the NE/4 of Section 21 of Eddy County, New Mexico. The proration unit for the Mustang Federal Corn #1 will be the N/2 of Section 21.

Sabre Operating currently operates the Empire Federal 21A, API # 30015237760 located in the NW/4 of Section 21 which is in the proration unit of our Mustang well. The parties further agree that MOGI will spud its well prior to March 1, 2006 or this agreement is null and void.

AGREED by Ron Jackson on behalf of Sabre Operating Inc.


Title: President

AGREED by Michael S. Daugherty on behalf of Murchison Oil & Gas, Inc.


Title: Vice President Operations