

If earthen pits are used in association with the drilling of this well, an OCD pit permit must be obtained prior to pit construction.

DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED

FEB 21 2006

APPLICATION FOR PERMIT TO DRILL OR REENTER

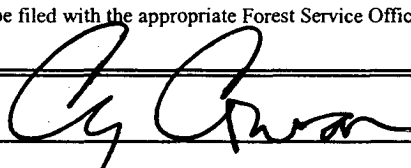
OMB No. 1004-0136

Expires November 30, 2000

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM-103573	
b. 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 Yates Petroleum Corporation		7. If Unit or CA Agreement, Name and No.	
3A. Address 105 South Fourth Street Artesia, New Mexico 88210		8. Lease Name and Well No. Arley Federal Unit #3	
3b. Phone No. (include area code) (505) 748-1471		9. API Well No. 30-015-34641	
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 740' FNL and 410' FEL At proposed prod. Zone Same		10. Field and Pool, or Exploratory Wildcat Chester	
14. Distance in miles and direction from nearest town or post office* Approximately 41 Miles Southwest of Artesia, New Mexico		11. Sec., T., R., M., or Blk. and Survey or Area Sec. 12, T20S-R21E	
15. Distance from proposed location* to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 410'		12. County or Parish Eddy County	
16. No. of Acres in lease 2017.45		13. State NM	
17. Spacing Unit dedicated to this well E/2		18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. .8 miles	
19. Proposed Depth 8300'		20. BLM/BIA Bond No. on file Nm 2811 -585997	
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 4247' GL		22. Approximate date work will start* ASAP	
23. Estimated duration 45 days		24. Attachments Roswell 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:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office.
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification.
- Such other site specific information and/or plans as may be required by the authorized office.

25. Signature 	Name (Printed/Typed) Cy Cowan	Date 11/11/2005
Title: Regulatory Agent, Land Department		
Approved by (Signature) /s/ Joe G. Lara		
Name (Printed/Typed) /s/ Joe G. Lara		
Date FEB 16 2006		
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

Previously Approved

WITNESS: 13 3/8" 196 CM7 JDB
NSL-5216

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

DISTRICT II

811 South First, Artesia, NM 88210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

2040 South Pacheco, Santa Fe, NM 87505

Instruction on back
Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name Wildcat Chester
Property Code	Property Name ARLEY FEDERAL UNIT	Well Number 3
OGRID No. 025575	Operator Name YATES PETROLEUM CORPORATION	Elevation 4247

Surface Location

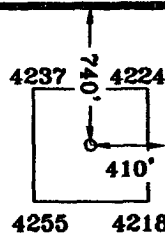
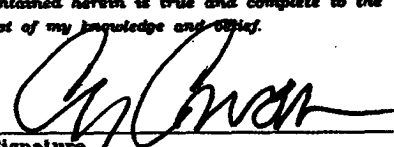
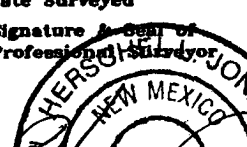
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	12	20S	21E		740	NORTH	410	EAST	EDDY

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	Joint or Infill	Consolidation Code	Order No.
320			

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

		NM-103573		OPERATOR CERTIFICATION <i>I hereby certify 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 September 25, 2003 Date
			N.32°35'27.3" W.104°44'25.3"	
				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> 8/11/2003 Date Surveyed  Signature of Professional Surveyor HERSCHEL L. JONES NEW MEXICO 3640 Certificate No. Herschel L. Jones RLS 3640 ARLEY 2 GENERAL SURVEYING COMPANY

0 330' 660' 990' 1650' 1980' 2310' 2640' 2970' 3300' 0'

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144
March 12, 2004

For drilling and production facilities, submit to appropriate NMOCD District Office.
For downstream facilities, submit to Santa Fe office

Pit or Below-Grade Tank Registration or Closure

Is pit or below-grade tank covered by a "general plan"? Yes ☒ No ☐

Type of action: Registration of a pit or below-grade tank ☒ Closure of a pit or below-grade tank ☐

RECEIVED

OCT 07 2004

OPD-ARTESIA

Operator: YATES PETROLEUM CORPORATION Telephone: (505) 748-1471

e-mail address: _____

Address: 105 South Fourth Street, Artesia, NM 88210

Facility or well name: Arley Federal Unit #3 API #: _____ U/L or Qtr/Qtr A Sec 12 T 20S R 21E

County: Eddy Latitude N. 32 35'27.3" Longitude W. 104 44'25.3" NAD: 1927 X 1983 ☐ Surface Owner Federal XX State Private ☐ Indian ☐

Pit

Type: Drilling ☒ Production ☐ Disposal ☐

Workover ☐ Emergency ☐

Lined ☒ Unlined ☐

Liner type: Synthetic ☒ Thickness 12 mil Clay ☐ Volume 20,000 bbl

Below-grade tank

Volume: _____ bbl Type of fluid: _____

Construction material: _____

Double-walled, with leak detection? Yes ☐ If not, explain why not. _____

Depth to ground water (vertical distance from bottom of pit to seasonal high water elevation of ground water.) 0

Less than 50 feet

50 feet or more, but less than 100 feet

100 feet or more

(20 points)

(10 points)

(0 points) 0

Wellhead protection area: (Less than 200 feet from a private domestic water source, or less than 1000 feet from all other water sources.)

Yes

No 0

(20 points)

(0 points) 0

Distance to surface water: (horizontal distance to all wetlands, playas, irrigation canals, ditches, and perennial and ephemeral watercourses.)

Less than 200 feet

200 feet or more, but less than 1000 feet

1000 feet or more

(20 points)

(10 points)

(0 points) 0

Ranking Score (Total Points)

0 Points

If this is a pit closure: (1) attach a diagram of the facility showing the pit's relationship to other equipment and tanks. (2) Indicate disposal location:

onsite ☐ offsite ☐ If offsite, name of facility _____ (3) Attach a general description of remedial action taken including remediation start date and end date. (4) Groundwater encountered: No ☐ Yes ☐ If yes, show depth below ground surface _____ ft. and attach sample results. (5) Attach soil sample results and a diagram of sample locations and excavations.

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that the above-described pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines ☐, a general permit X or an (attached) alternative OCD-approved plan ☐.

Date: 10/6/04

Printed Name/Title Cy Cowan, Regulatory Agent

Signature 

Your certification and NMOCD approval of this application/closure does not relieve the operator of liability should the contents of the pit or tank contaminate ground water or otherwise endanger public health or the environment. Nor does it relieve the operator of its responsibility for compliance with any other federal, state, or local laws and/or regulations.

Approval:

Date: OCT 8 2004

Printed Name/Title

Signature 



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 9, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Yates Petroleum Corporation
105 South Forth Street
Artesia, New Mexico 88210-2118

Attention: **Cy Cowan, Regulatory Agent**
cyc@ypcnm.com

RECEIVED

JUN 17 2005

OOD-ARTE01A

Administrative Order NSL-5216

Dear Mr. Cowan:

Reference is made to the following: (i) your application submitted to the New Mexico Oil Conservation Division's ("Division") in Santa Fe, New Mexico on June 3, 2005 (*administrative application reference No. pSEM0-515745235*); and (ii) the Division's records, including the record in Case No. 13018 (Arley Federal Exploratory Unit Agreement Order No. R-11927, dated March 25, 2003): all concerning Yates Petroleum Corporation's ("Yates") request for a non-standard deep gas well location to be applicable to any and all formations and/or pools from the top of the Wolfcamp to the base of the Chester formation that are:

- (1) developed on 320-acre spacing; and
- (2) governed under the provisions of Division Rule 104.C (2).

Lots 1 through 4 and the W/2 E/2 (E/2 equivalent) of Section 12, Township 20 South, Range 21 East, NMPM, Eddy County, New Mexico is to be dedicated to this well in order to form a standard 324.80-acre stand-up deep gas spacing unit.

Your application has been duly filed under the provisions of Division Rule 104.F.

By the authority granted me under the provisions of Division Rule 104.F (2) the following described well to be drilled at an unorthodox deep gas well location within this 324.80-acre unit is hereby approved:

Arley Federal Unit Well No. 3
740' FNL & 410' FEL (Lot 1/Unit A).

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
File: Case No. 13018

YATES PETROLEUM CORPORATION
Arley Federal Unit #3
740' FNL and 410' FEL
Section 12-T20S-R21E
Eddy County, New Mexico

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

San Andres	395'	Strawn	7035'
Glorieta	1835'	Atoka	7240'
Upper Yeso	2085'	Morrow Clastics	7820'
Tubb	2805'	Middle Morrow	7905'
Lower Yeso	2930'	Lower Morrow	7980'
Abo	3451'	Base Morrow Clastics	8035'
Wolfcamp	4591'	Chester LM	8155'
Cisco	5938'	TD	8300'

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

Water: 250'-350'
Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE will be installed on the 9 5/8" casing and rated for 3000 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>
17 1/2"	13 3/8"	48#	H-40	ST&C	0-350'	350'
12 1/4"	9 5/8"	36#	J-55	ST&C	0-1600'	1600'
8 3/4"	5 1/2"	17#	J-55	LT&C	0-100'	100'
8 3/4"	5 1/2"	15.5#	J-55	LT&C	100'-6800'	6700'
8 3/4"	5 1/2"	17#	J-55	LT&C	6800'-8300'	1500'

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

Arley Federal Unit #3

Page 2

B. CEMENTING PROGRAM:

Surface casing: 300 sx C + 2% CaCL₂ (YLD 1.32 WT 15.6)

Intermediate casing: 500 sx Lite (YLD 2.0 WT 12.5) tail in with 200 sx 'C'
+ 2% CaCL₂ (YLD 1.32 WT 15.6)

Production Casing: TOC=1100', 2200 sx Super 'H' Modified (YLD 1.67 WT 13.0).

5. MUD PROGRAM AND AUXILIARY EQUIPMENT:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-350'	FW /Air Mist	8.4	28	N/C
350'-1600'	FW /Air Mist	8.4	28	N/C
1600'-7300'	Cut Brine/4% KCL @ 5800'	8.6-9.2	28	N/C
7300'-TD	Salt Gel/Starch	9.2-9.8	32-38	<10cc

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 out from under intermediate casing.
Logging: Platform Express/HALS/ possible FMI.
Coring: Rotary Sidewall Cores
DST's: As warranted.

7. ABNORMAL CONDITIONS, BOTTOM HOLE PRESSURE, AND POTENTIAL HAZARDS:

Anticipated BHP:

From: 0	TO: 350'	Anticipated Max. BHP: 175 PSI
From: 350'	TO: 1600'	Anticipated Max. BHP: 700 PSI
From: 1600'	TO: 8300'	Anticipated Max. BHP: 4250 PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None

H₂S Zones Anticipated: None Anticipated

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
Arley Federal Unit #3
740' FNL and 410' FEL
Section 12-T20S-R21E
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 41 miles Southwest of Artesia, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go south of Artesia on Highway 285 to Rock Daisy Road (CR-23). Turn right on Rock Daisy Road and go to Armstrong Road (CR-12), approx. 17 miles. Turn right on Armstrong Road and go .5 of a mile to Deer Canyon Road. Turn right on Deer Canyon Road and go approximately 2 miles to a cattleguard. Just before the cattleguard turn right on existing two track road going north. Follow the two track for approx. .8 of a mile. The new road will start here going northeast for approximately .4 of a mile to the southwest corner of the proposed well location.

2. PLANNED ACCESS ROAD:

- A. The proposed new access road will be approximately .4 of a mile in length from the point of origin to the southwest corner of the drilling pad. The road will lie in a southwest/northeast direction.
- B. The road is 14 feet in width (driving surface) and is adequately drained to control runoff and soil erosion.
- C. The road will be bladed with drainage on one side. Some traffic turnouts will be built.
- D. The route of the road is visible.
- E. Existing roads will be maintained in the same or better condition.

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:

Dirt contractor will locate nearest pit and obtain any permits and materials needed for construction.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or separate disposal application will be submitted.
- D. Oil produced during operations will be stored in tanks until sold.
- E. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- F. All trash, junk, and other waste materials will 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 approved.

8. ANCILLARY FACILITIES:

None

9. WELLSITE LAYOUT:

- A. Exhibit C shows the relative location and dimensions of the well pad, the reserve pits, the location of the drilling equipment, rig orientation and access road approach.
- B. The reserve pits will be plastic lined and will face to the north. Yates Petroleum Corporation is in full compliance with the OCD General Plan for Drilling Pits approved on April 15, 2004.
- C. A 600' x 600' area has been staked and flagged.

10. PLANS FOR RESTORATION:

- A. After finishing drilling and/or completion operations, all equipment and other material not needed for further operations will be removed. The location will be cleaned of all trash and junk to leave the wellsite in as aesthetically pleasing a condition as possible.
- B. Unguarded pits, if any, containing fluids will be fenced until they have dried and been leveled.
- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled level after they have evaporated and dried.

11. SURFACE OWNERSHIP: Federal Surface, Administered by Bureau of Land Management, Carlsbad, New Mexico.

Arley Federal #3

Page 3

12. OTHER INFORMATION:

- A. Topography: Refer to the existing archaeological report for a description of the topography, flora, fauna, soil characteristics, dwellings, historical and cultural sites.
B. The primary surface use is for grazing.

13. OPERATOR'S REPRESENTATIVE:

A. Through A.P.D. Approval:

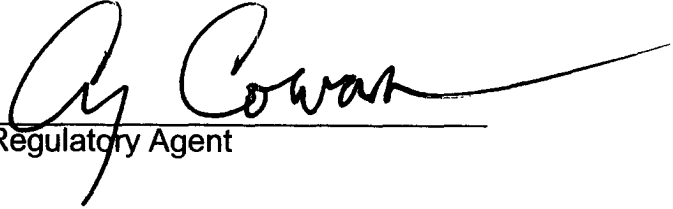
Cy Cowan, Regulatory Agent
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

B. Through Drilling Operations,
Completions and Production:
Pinson McWhorter,
Operations Manager
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

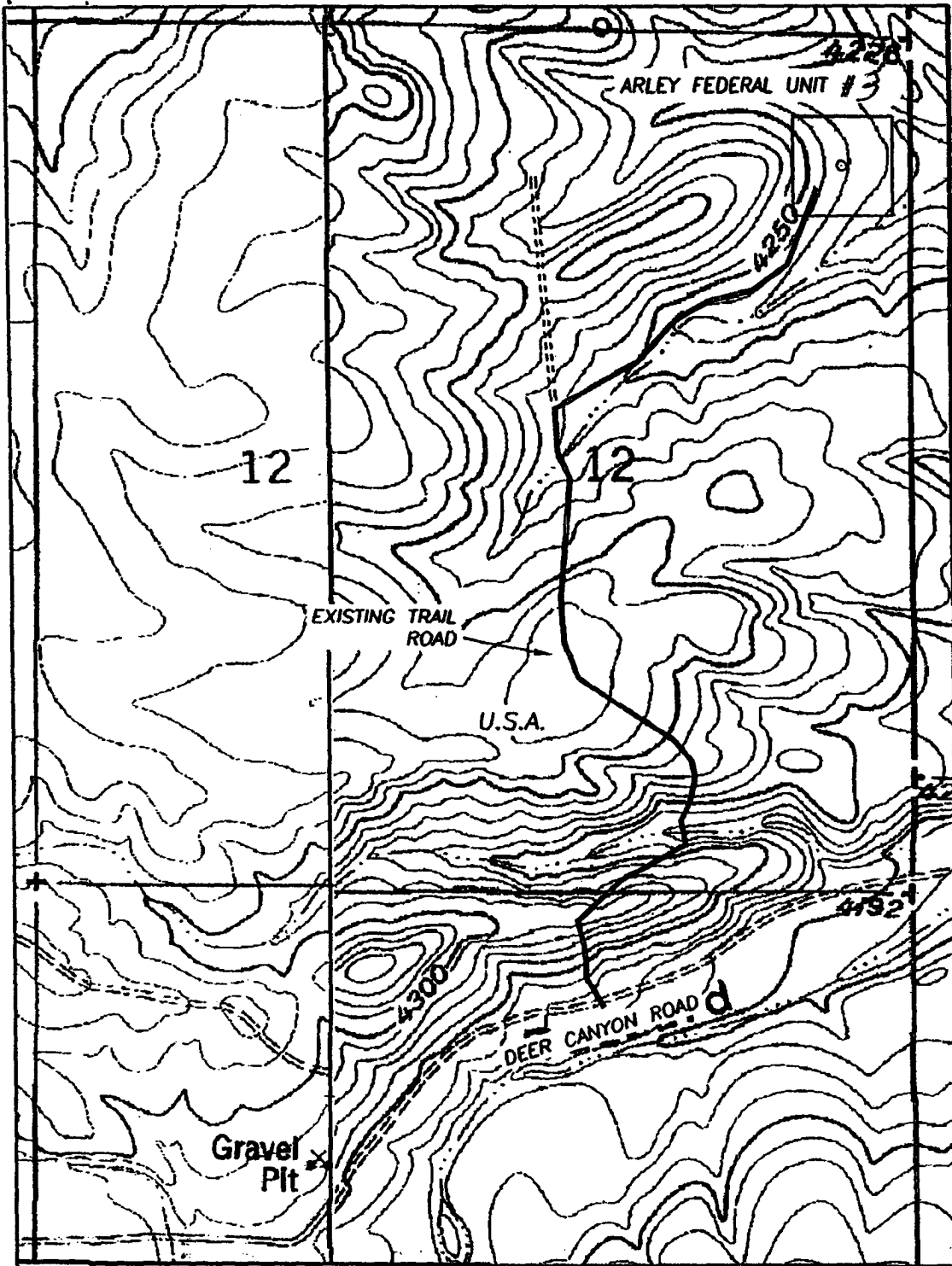
14. CERTIFICATION:

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 presently 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 Yates Petroleum Corporation and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

9/26/03


Regulatory Agent

SECTION 12, TOWNSHIP 20 SOUTH, RANGE 21 EAST, NMPM, EDDY COUNTY, NEW MEXICO.



THE PREPARATION OF THIS PLAT AND THE PERFORMANCE OF THE SURVEY UPON WHICH IT IS BASED WERE DONE UNDER MY DIRECTION AND THE PLAT ACCURATELY DEPICTS THE RESULTS OF SAID SURVEY AND MEET THE REQUIREMENTS OF THE STANDARDS FOR LAND SURVEYS IN NEW MEXICO AS ADOPTED BY THE NEW MEXICO STATE BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS AND LAND SURVEYORS.

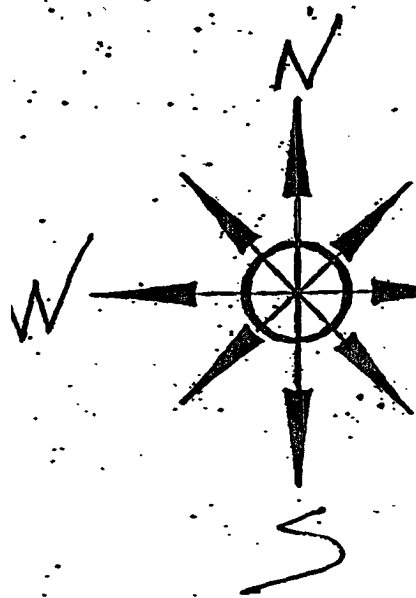
3640
MICHAEL L. JONES, R.L.S. No. 3640

GENERAL SURVEYING COMPANY P.O. BOX 1928
LOVINGTON, NEW MEXICO 88260

YATES PETROLEUM CORP.

LEASE ROAD TO ACCESS THE YATES ARLEY FEDERAL UNIT #3 WELL, LOCATED IN SECTION 12, TOWNSHIP 20 SOUTH, RANGE 21 EAST, NMPM, EDDY COUNTY, NEW MEXICO.

Survey Date: 8/11/2003	Sheet 1 of 1 Sheets
Drawn By: Ed Blevins	W.O. Number
Date: 8/13/03	Scale 1" = 1000' ARLEY 2



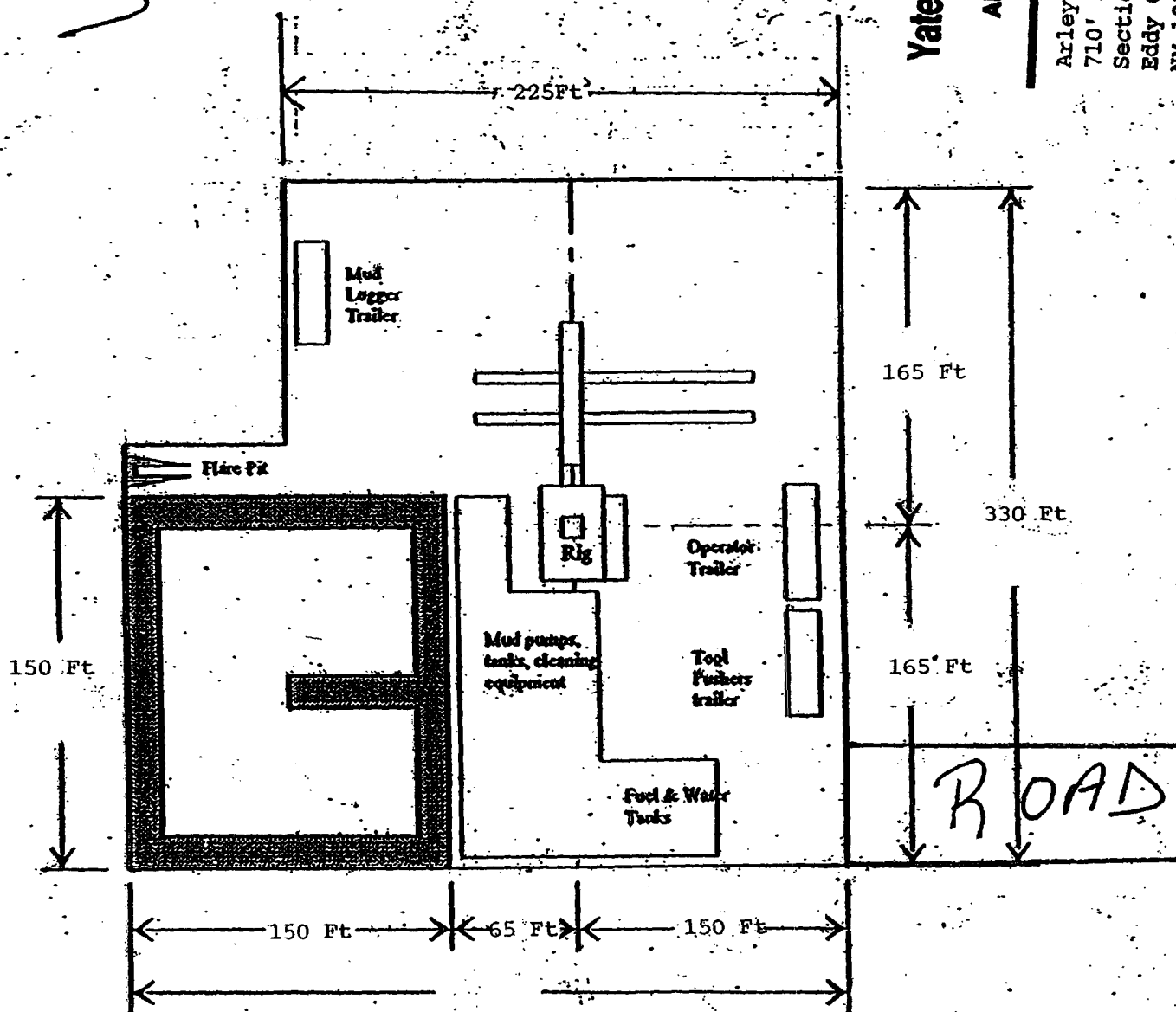
Yates Petroleum Corporation
Location Layout for Permian Basin
Up to 12,000'

Pits West

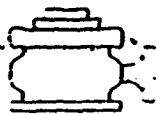
PB - L1

Yates Petroleum Corporation
105 SOUTH 4th STREET
ARTESIA, NEW MEXICO 88210

Arley Federal Unit #3
710' FNL and 410' FEL
Section 12, T20S-R21E
Eddy County, New Mexico
NM-103573



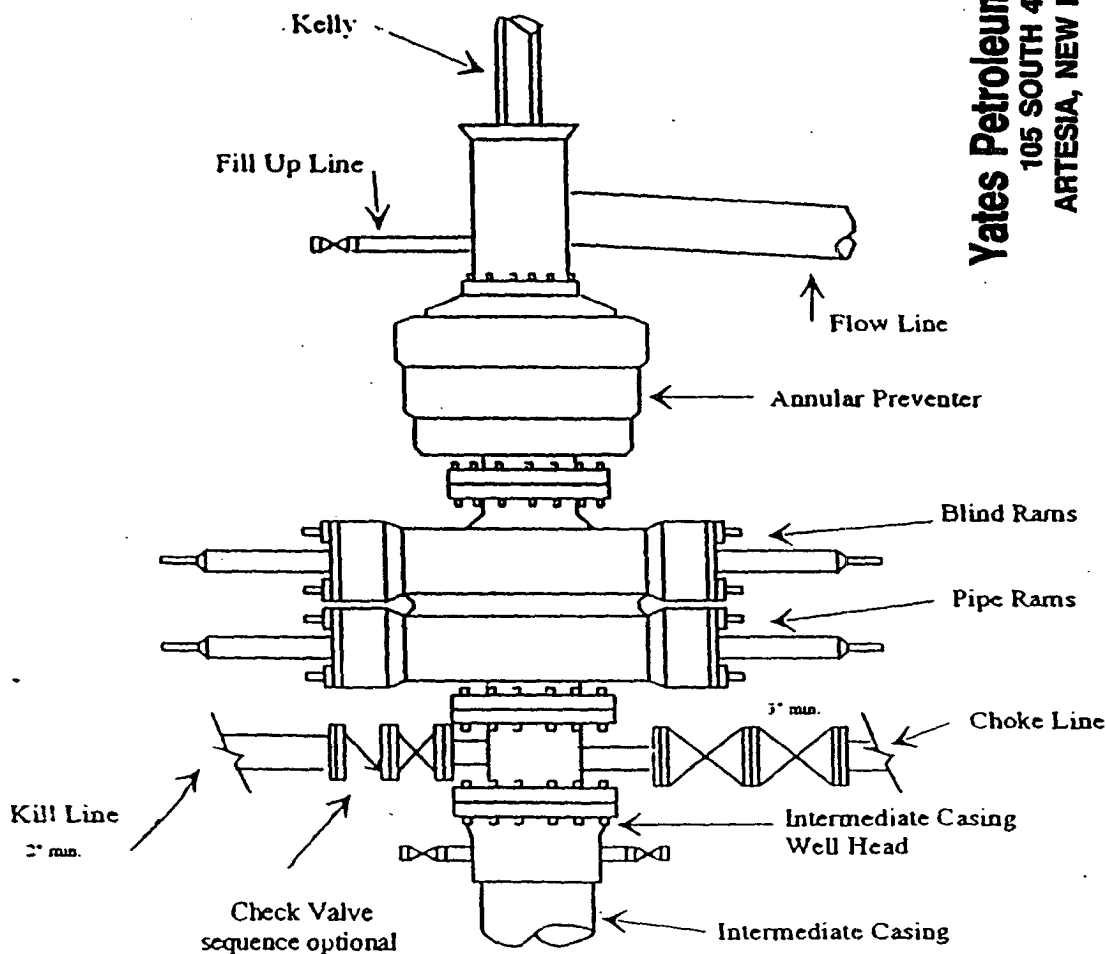
Distance from Well Head to Reserve Pit will vary between rigs
The above dimension should be a maximum



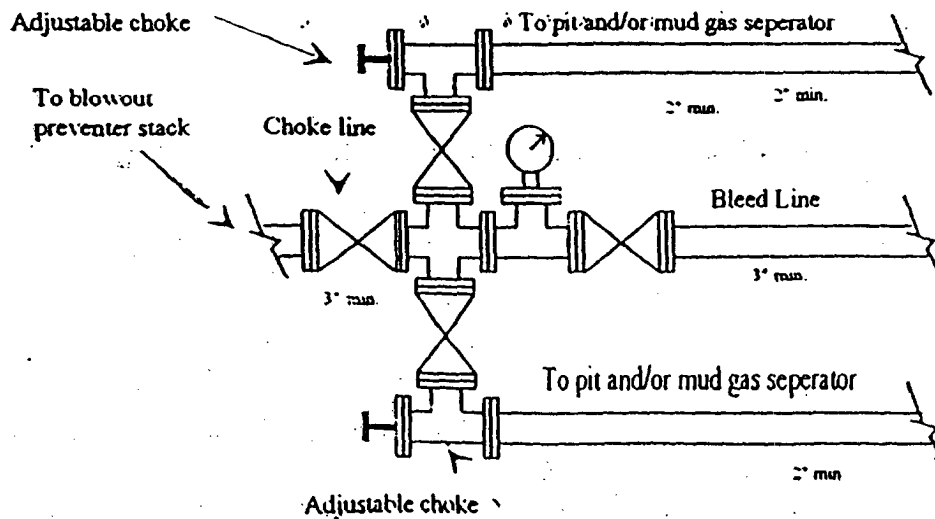
Yates Petroleum Corporation
Typical 3,000 psi Pressure System
Schematic
Annular with Double Ram Preventer Stack

Yates Petroleum Corporation
 105 SOUTH 4th STREET
 ARTESIA, NEW MEXICO 88210

Arley Federal Unit #3
 710' FNL and 410' FEL
 Section 12, T20S-R21E
 Eddy County, New Mexico
 NM-103573



Typical 3,000 psi choke manifold assembly with at least these minimum features



CONDITIONS OF APPROVAL - DRILLING

Operator's Name: YATES PETROLEUM CORPORATION
Well Name & No. 3 - ARLEY FEDERAL UNIT
Location: 740' FNL & 410' FEL - SEC 12 - T2oS - R21E - EDDY COUNTY
Lease: NMNM-103573

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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.

II. CASING:

1. The 13-3/8 inch surface casing shall be set at 350 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 9-5/8 inch intermediate casing is circulate cement to the surface.

4. 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.

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) is 3000 psi.

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.
- 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.