

OOD-HOBBS

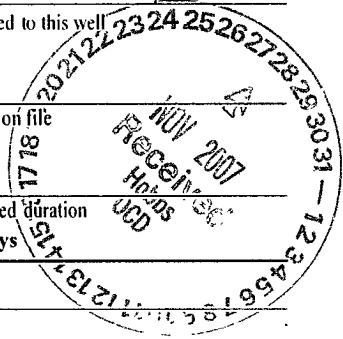
Form 3160-3
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

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

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-04591 | |
| 1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input 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 Seely Oil Company | | 7. If Unit or CA Agreement, Name and No. | |
| 3a. Address 815 W. 10th St. Ft. Worth, TX 76102 | | 8. Lease Name and Well No Federal "22". Well No. 1 | |
| 3b. Phone No. (include area code) (817) 332-1377 | | 9. API Well No. 3D-D25-38623 | |
| 4. Location of Well (Report location clearly and in accordance with any State requirements *) At surface 1650' FNL & 330' FEL At proposed prod. zone same Unit H | | 10. Field and Pool, or Exploratory Corbin Delaware West | |
| 14. Distance in miles and direction from nearest town or post office* 30 miles NW of Hobbs, NM | | 11. Sec., T. R. M. or Blk. and Survey or Area Sec. 22-T18S-R33E | |
| 15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drig. unit line, if any) 330' N/A | | 12. County or Parish Lea | |
| 16. No. of acres in lease 1643.52 | | 13. State NM | |
| 17. Spacing Unit dedicated to this well 40 | | 18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft N/A | |
| 19. Proposed Depth 6,100' | | 20. BLM/BIA Bond No. on file NM-1816 | |
| 21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3883' GL | | 22. Approximate date work will start* 11/19/2007 | |
| | | 23. Estimated duration 30 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. | 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>George R. Smith</i> | Name (Printed Typed) George R. Smith | Date 10/18/2007 |
|---|---|--------------------|

| | | |
|--------------------------------------|--|--|
| Title Agent for Seely Oil Company | | |
|--------------------------------------|--|--|

| | | |
|---|---|---------------------|
| Approved by (Signature) <i>/s/ James A. Amos</i> | Name (Printed Typed) /s/ James A. Amos | Date NOV 23 2007 |
|---|---|---------------------|

| | |
|----------------------------|---------------------------------|
| Title FOR 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 TWO YEARS

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)

Capitan Controlled Water Basin

Lease Responsibility Statement: Seely Oil Company accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land or portion thereof.

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED

SEE ATTACHED FOR
CONDITIONS OF APPROVAL

GRS.
George R. Smith, agent

DISTRICT I
1625 N. French Dr., Hobbs, NM 88240

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised October 12, 2005

DISTRICT II
1301 W. Grand Avenue, Artesia, NM 88210

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

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | | |
|-----------------------------------|------------------------------------|---|-----------------------------------|
| API Number 30-025-38623 | | Pool Code 5099 13196 | Pool Name Corbin Delaware West |
| Property Code 36858 | Property Name FEDERAL "22" | | Well Number 1 |
| OGRID No. 20497 | Operator Name SEELY OIL COMPANY | | Elevation 3883' |

Surface Location

| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| H | 22 | 18 S | 33 E | | 1650 | NORTH | 330 | EAST WEST | LEA |

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 40 | 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

| | |
|--|---|
| <p>LAT-N32°44'09.06" LONG-W103°38'36.32" SPC- N.: 632124.3 E.: 753478.6 (NAD-83)</p> <p>NM-04591</p> | <p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>George R. Smith</i> 10/18/07 Signature Date</p> <p>George R. Smith, agent Printed Name</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>OCTOBER 17, 2007 Date Surveyed</p> <p>GARY L. JONES Signature & Seal of MEXICO Professional Surveyor</p> |
| | <p>W.O. No. 18688 Certificate No. 7977</p> <p>BASIN SURVEYS</p> |

APPLICATION FOR DRILLING

SEELY OIL COMPANY
 Federal "22", Well No. 1
 1650' FNL & 330' FEL, Sec. 22-T18S-R33E
 Lea County, New Mexico
 Lease No.: NM-04591
 (Development Well)

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Seely Oil Company submits the following items of pertinent information in accordance with BLM requirements:

1. The geologic surface formation is recent Permian with quaternary alluvium and other surficial deposits.
2. The estimated tops of geologic markers are as follows:

| | | | |
|--------------|-------|--------------|-------|
| Rustler | 1500' | Seven Rivers | 3520' |
| Top Salt | 1680' | Queen | 4260' |
| Base of Salt | 2890' | San Andres | 4820' |
| Yates | 3100' | Delaware | 5220' |
| | | T.D. | 6100' |

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

Water: Surface water between 100' - 300'.
 Oil: Possible in the Queen, Delaware.
 Gas: Possible in the Delaware.

4. Proposed Casing Program: (New Casing)

| HOLE SIZE | CASING SIZE | WEIGHT | GRADE | COLLAR | SETTING DEPTH | COLLAPSE DESIGN FACTOR | BURST DESIGN FACTOR | TENSION DESIGN FACTOR |
|--------------|----------------|--------|-------|--------|------------------|------------------------------|---------------------------|-----------------------------|
| 11" | 8 5/8" | 24.0# | J-55 | ST&C | 1,550' | 1.75 | 4.03 | 8.1 |
| 7 7/8" | 5 1/2" | 15.5# | J-55 | ST&C | 6,100' | 1.33 | 1.52 | 2.35 |

5. Cement Program:

A. 8 5/8" casing: ^{1550'} 1600' Circ. to surface: Lead: 580 sx Lite Premium Plus + additives, yield: 1.89
 Tail: 130 Sx Premium Plus + additives, Yield 1.35
 B. 5 1/2" casing: 400 sx Lite Premium Plus + additives, Yield 1.85
 Tail in 200 sx 50/50 Premium Plus and pozmix, Yield 1.03 (TOC + 1350')

6. Proposed Control Equipment: A 10" 3000 psi wp double hydraulic ram BOP will be installed on the 8 5/8" casing and will be used as a 2,000 psi system. Casing and BOP will be tested according to Onshore Oil & Gas Order #2 before drilling out with 7 7/8". The pipe rams will be operated and checked daily, plus each time drill pipe is out of hole. This will be documented on driller's log. See Exhibit "E".

7. **MUD PROGRAM:**

| MUD WEIGHT | VIS. | W/L CONTROL |
|-------------------------------|----------------|-------------------------|
| 0' - 1550': Fresh water/Spud: | 8.4 - 9.4 ppg | 32 - 34 |
| 1550' - 6100': Salt gel mud: | 9.8 - 10.2 ppg | 39 - 34 |
| | | No W/L control |
| | | W/L control <10 cc @ TD |

8. Auxiliary Equipment: Blowout Preventer, Kelly cock.

9. Testing, Logging, and Coring Program:

Drill Stem Tests: As deemed necessary.

Logging: T.D thru pay: GR-Density Neutron, DLL

T.D. to Surface: GR-Neutron

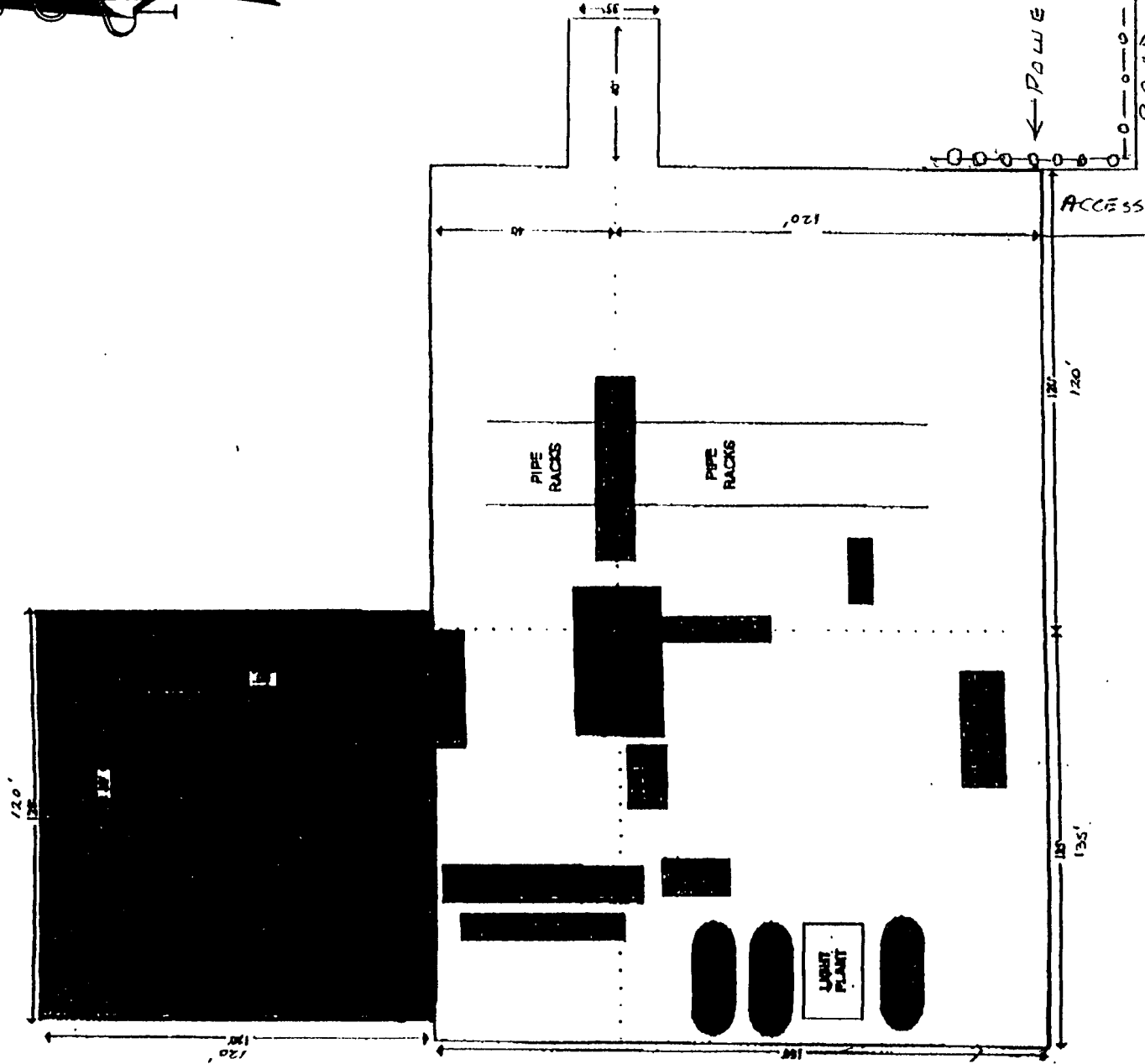
Coring: Rotary Sidewall: as dictated by logs.

10. No abnormal pressures or temperatures are anticipated. In the event abnormal pressures are encountered the proposed mud program will be modified to increase the mud weight. Estimated evacuated BHP = 2684 psi with a temperature of 121°.

11. H₂S: None expected. None in previous drilling of wells, but the Mud Log Unit will be cautioned to use a gas trap to detect H₂S and if any is detected the mud weight will be increased along with H₂S inhibitors sufficient to control the gas and the drilling plan shown in "Exhibit F" will be implemented and followed.

12. Anticipated starting date: November 19, 2007

Anticipated completion of drilling operations: Approximately 30 days.



*See COA 1/2
Pit North*

EXHIBIT "D"
SEELY OIL COMPANY
Federal "22", Well No. 1
Pad & Pit Layout

3000 psi System

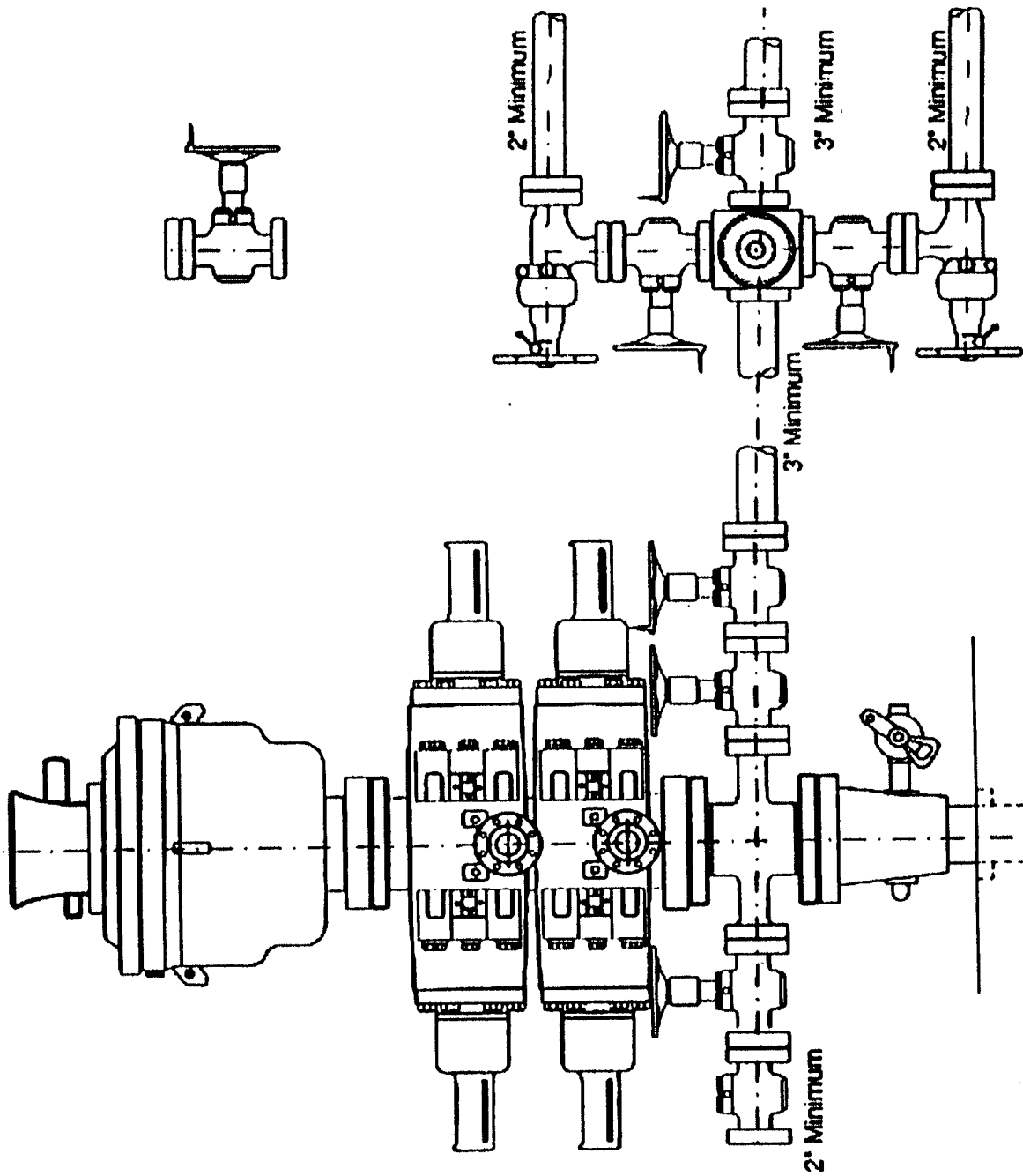


Figure 3-2

EXHIBIT "E"
SEELY OIL COMPANY
Federal "22", Well No. 1
BOP Specifications

EXHIBIT "F"

Seely Oil Company

H₂S DRILLING OPERATIONS PLAN

For:

Federal "22", Well No. 1
1650' FNL & 330' FEL, Sec. 22-T18S-R33E

I. HYDROGEN SULFIDE TRAINING

All key personnel whether regularly assigned, contracted or employed on an unscheduled basis will receive or represent that they have received training in accordance with the general training requirements outlined in the API RP49 for safe drilling of wells containing hydrogen sulfide, Section 2.

In addition, supervisory personnel will be trained in the following areas:

1. The corrective action and shut-in procedures when drilling or reworking a well, and blowout prevention in well control procedures.
2. The contents and requirements of the H₂S drilling operations plan.

II. H₂S SAFETY EQUIPMENT AND SYSTEMS

Note: All H₂S safety equipment and systems will be installed, tested and operational when drilling reaches a depth of 500' above the first zone containing or reasonably expected to contain 100 ppm or more hydrogen sulfide.

1. Well Control Equipment:

- a. Choke manifold with a minimum of one choke.
- b. Blind rams and pipe rams and pipe rams to accommodate all drill pipe sizes with a properly sized closing unit.

2. Protective Equipment:

- a. Proper protective breathing apparatus shall be readily accessible to all essential personnel on the drill site.

3. H₂S and Monitoring Equipment:

- a. Three portable H₂S monitors positioned on location for best coverage and response. These units have warning lights and audible sirens.

4. Visual Warning Systems:

- a. Wind direction indicators as shown on well site diagram.
- b. Caution/Danger signs shall be posted on roads providing direct access to location.

5. Mud Program:

- a. The mud program has been designed to minimize the volume of H₂S circulated to the surface. Proper mud weight and safe drilling practices will minimize hazards when penetrating possible H₂S bearing zones.

6. Communications:

- a. Cell phone communication available in all vehicles and at the drilling site.

7. Well Testing:

- a. Drillstem testing, if required, will be performed with a minimum number of personnel in the immediate vicinity, which are necessary to safely and adequately conduct the test. When drillstem testing intervals known to or reasonably expected to contain 100 ppm or more H₂S, the drillstem test will be conducted during daylight hours and formation fluids will not be flowed to the surface.

MULTI POINT SURFACE USE AND OPERATIONS PLAN

SEELY OIL CO.
Federal "22", Well No. 1
1650' FNL & 330' FEL, Sec. 22-T18S-R33E
Lea County, New Mexico
Lease No.: NM-04591
(Development Well)

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan, to be followed in rehabilitating the surface environmental effects associated with the operations.

1. EXISTING ROADS:

- A. Exhibit "A" is a portion of a USGS/BLM Topo map showing the location of the proposed well as staked. The well site location is approximately 53 road miles southeast of Artesia, New Mexico or 30 road miles northwest of Hobbs, NM. Traveling east from Artesia there will be approximately 50 miles of paved highway and 2.4 miles of gravel oilfield road.
- B. Directions: Travel east from Artesia, NM on U.S. Highway 82 for approximately 34 miles; turn southeast on NM Highway 529 for approximately 16.8 miles. Turn south .8 mile east of MM 16 at a cattle guard onto an oil field road with Oryx and Baber signs. Continue south for .4 mile and then west, past the Seely tank battery, for 1 mile; then .5 mile SW to a road turning west. Turn west for .5 mile, passing the Rash State well pad and the Itch State #1. Continue SW for .2 mile past this well site to the SE corner of the Itch State. #3 well site. The start of the proposed access road will start on the road just south of the southwest corner of this well pad and run west 642 feet then 185 feet north to the SE corner of the proposed well.

2. PLANNED ACCESS ROAD:

- A. Length and Width: The proposed access road will be constructed to a width of 12 feet and will be approximately 827 feet in length. The proposed access road is color coded red on Exhibit "A".
- B. Construction: The proposed access road will be constructed by grading and topping with compacted caliche and will be properly drained.
- C. Turnouts: No turnouts are planned.
- D. Culverts: None required.
- E. Cuts and Fills: Sand dunes 4 to 6 foot high will need to be leveled
- F. Gates, Cattle guards: None required.
- G. Off Lease R/W: None required.

3. LOCATION OF EXISTING WELLS:

- A. Existing wells within a two-mile radius are shown on Exhibit "C".

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES;

- A. There are oil production facilities on the lease at this time.
- B. If the well proves to be commercial, the necessary production facilities, gas production-process equipment and tank battery will be installed on the drilling pad. A 3 phase 480 volt electric power line will be run east parallel to the proposed access road for approximately 850 feet to the power source near the Itch State, Well No. 3.

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with fresh water that will be obtained from private or commercial sources and will be transported over the existing access roads or by surface fast line.

6. SOURCE OF CONSTRUCTION MATERIALS:

- A. Caliche for surfacing the proposed access road and well site pad will be obtained on location, if available, or from a State pit in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 23-T18S-R33E. No surface materials will be disturbed except those necessary for actual grading and leveling of the drill site and access road.

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. All pits will be fenced with normal fencing materials to prevent livestock and wildlife from entering the area.
- D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or a separate disposal application will be submitted to the BLM for approval.
- E. Oil produced during operations will be stored in tanks until sold.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- G. Trash, waste paper, garbage and junk will be contained in trash bins to prevent scattering and will be removed for deposit in an approved sanitary landfill within 30 days after finishing drilling and/or completion operations.

8. ANCILLARY FACILITIES:

- A. None required.

9. WELL SITE LAYOUT:

- A. Exhibit "D" shows the relative location and dimensions of the well pad, reserve pits, and major rig components.
- B. Mat Size: 160' X 155', plus 120' X 120' reserve pits. The pits will be on the north.
- C. Cut & Fill: A leveling of 3 – 6 foot sand dunes will be required plus a 1.5-2 foot cut on the north with fill to the south.
- D. The surface will be topped with compacted caliche and the reserve pits will be plastic lined.

10. PLANS FOR RESTORATION OF THE SURFACE:

- A. After completion of drilling and/or completion operations, all equipment and other material not required for operations will be removed. Pits will be filled and the location cleaned of all trash and junk to leave the well site in an aesthetically pleasing a condition as possible
- B. Any unguarded pits containing fluids will be fenced until they are filled.
- 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 and leveled as soon as they are dry enough to work after abandonment.

11. OTHER INFORMATION:

- A. Topography: The proposed well site and access road is located in the Querecho Plains on the southwest slope of the Mescalero Ridge (Caprock). The location has a southwesterly slope of 1.1% from an elevation of 3983'.
- B. Soil: The topsoil at the well site is a yellowish - brown, non-calcareous fine sandy loam of the Pyote soils and dune land soils series.
- C. Flora and Fauna: The vegetation cover is a poor to fair grass cover of three-awn, bluestem, sand and spike dropseed, fluff grass, and other miscellaneous native grasses along with plants of mesquite, yucca, shinnery oak brush, sage, broomweed, cacti, four-wing salt bush, buckwheat and miscellaneous weeds and wildflowers. The wildlife consists of antelope, rabbits, coyotes, rattlesnakes, lizards, dove, quail and other wildlife typical of the semi-arid desert land.
- D. Ponds and Streams: None in area.
- E. Residences and Other Structures: There are no structures other than oilfield tanks, pump jacks and other oilfield equipment..
- F. Land Use: Cattle grazing.

11. OTHER INFORMATION: cont.....

- G. Surface Ownership: The proposed well site and access road are on Federal surface.
- H. There is no evidence of archaeological, historical or cultural sites on the well site. Archaeological Survey Consultants, P. O. Box D, Roswell, NM 88202 are conducting an archaeological survey and their report will be submitted to the appropriate government agencies.

12. OPERATOR'S REPRESENTATIVE:


- A. The field representative responsible for assuring compliance with the approved surface use and operations plan is as follows:

David Henderson
SEELY OIL CO.
815 W. 10th St.
Ft. Worth, TX 76102
Office Phone: (817) 332-1377

13. CERTIFICATION:

I hereby certify that I have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in the 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 Seely Oil Co. 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.

October 18, 2007


George R. Smith
Agent for: Seely Oil Co.

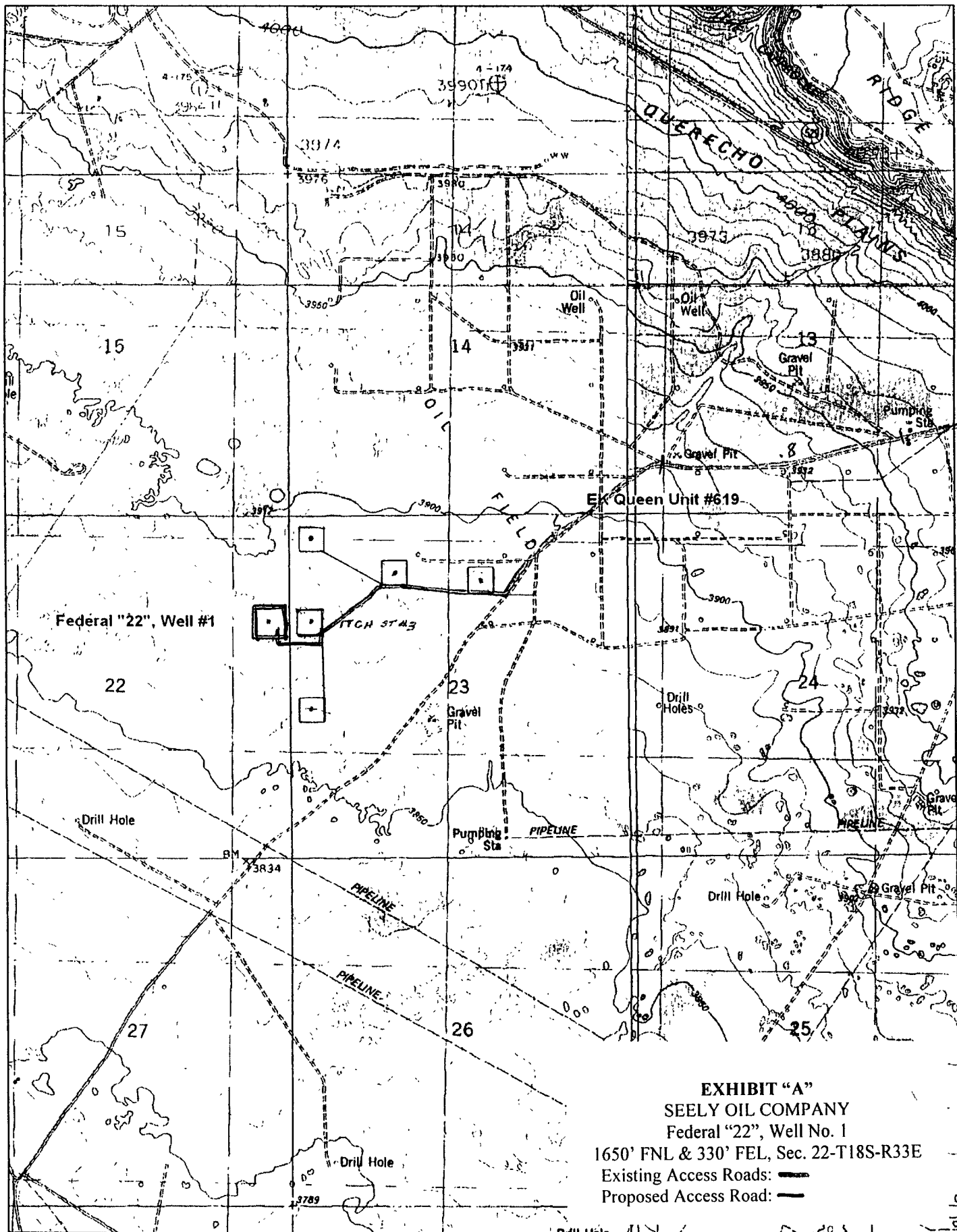


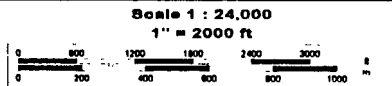


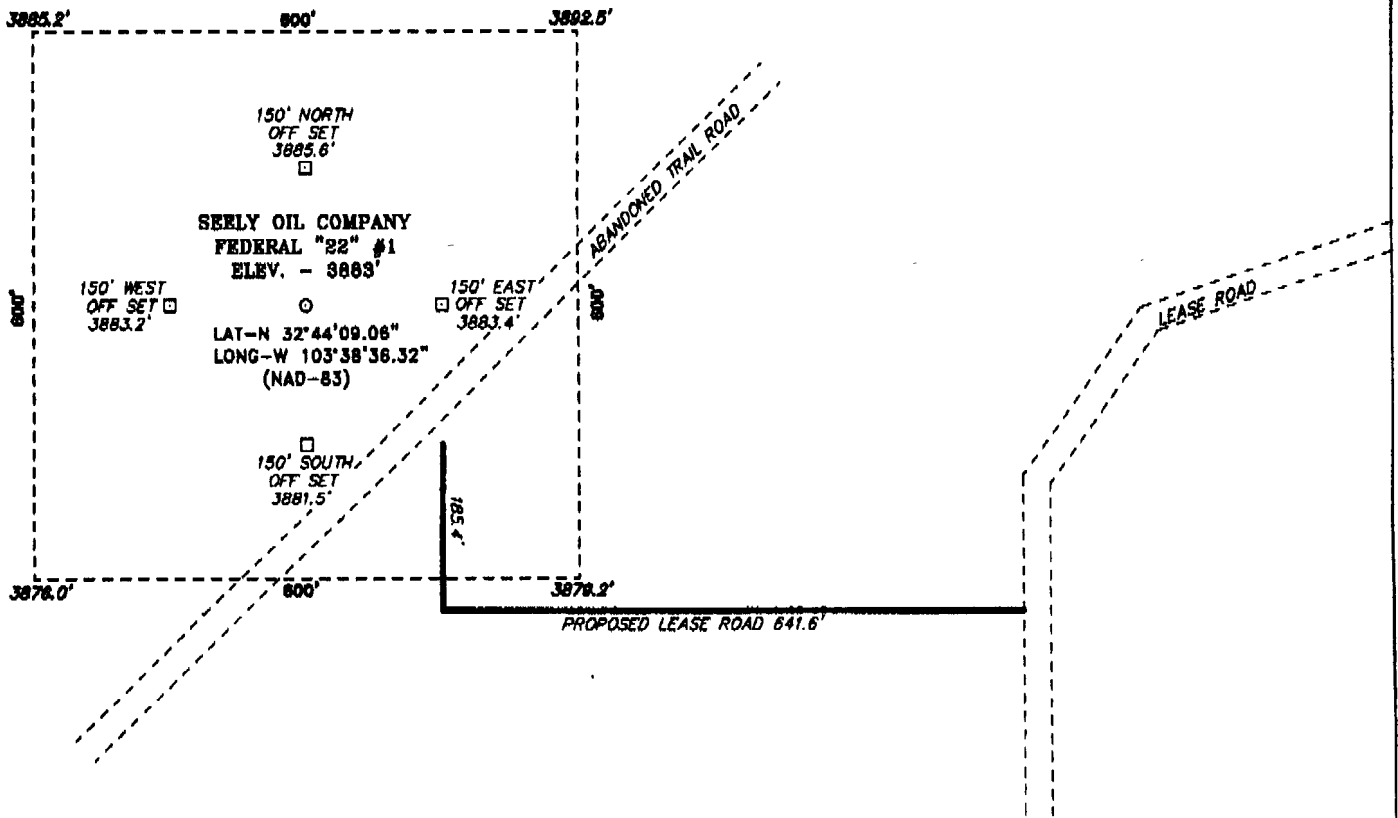
EXHIBIT "A"
SEELY OIL COMPANY
 Federal "22", Well No. 1
 1650' FNL & 330' FEL, Sec. 22-T18S-R33E
 Existing Access Roads: 
 Proposed Access Road: 



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 www.delorme.com



**SECTION 22, TOWNSHIP 18 SOUTH, RANGE 33 EAST, N.M.P.M.,
LEA COUNTY, NEW MEXICO.**



SCALE: 1" = 200'

DIRECTIONS TO LOCATION:

FROM THE JUNCTION OF STATE HWY 529 AND CO. RD.
L-125 (QUECHO), PROCEED WESTERLY ON LEASE ROAD
FOR 2.6 MILES TO PROPOSED LEASE ROAD.

SEELY OIL COMPANY

REF: FEDERAL "22" #1 / Well Pad Topo

THE FEDERAL "22" No. 1 LOCATED 1650'

FROM THE NORTH LINE AND 330' FROM THE EAST LINE OF
SECTION 22, TOWNSHIP 18 SOUTH, RANGE 33 EAST,

N.M.P.M., LEA COUNTY, NEW MEXICO.

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

W.O. Number: 18688

Drawn By: J. M. SMALL

Date: 10-18-2007

Disk: 18688W

Survey Date: 10-17-2007

Sheet 1 of 1 Sheets

PECOS DISTRICT CONDITIONS OF APPROVAL

| | |
|-----------------------|-------------------------------------|
| OPERATOR'S NAME: | Seely Oil Company |
| LEASE NO.: | NM04591 |
| WELL NAME & NO.: | Federal 22 No 1 |
| SURFACE HOLE FOOTAGE: | 1650' FNL & 330' FEL |
| BOTTOM HOLE FOOTAGE | |
| LOCATION: | Section 22, T. 18 S., R 33 E., NMPM |
| COUNTY: | Eddy County, New Mexico |

TABLE OF CONTENTS

Standard Conditions of Approval (COA) apply to this APD. If any deviations to these standards exist or special COAs are required, the section with the deviation or requirement will be checked below.

- General Provisions**
- Permit Expiration**
- Archaeology, Paleontology, and Historical Sites**
- Noxious Weeds**
- Special Requirements**
 - Lesser Prairie Chicken
- Construction**
 - Notification
 - Topsoil
 - Reserve Pit
 - Federal Mineral Material Pits
 - Well Pads
 - Roads
- Road Section Diagram**
- Drilling**
- Production (Post Drilling)**
 - Well Structures & Facilities
 - Electric Lines
- Reserve Pit Closure/Interim Reclamation**
- Final Abandonment/Reclamation**

I. GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

II. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD. (Filing of a Sundry Notice is required for this 60 day extension.)

III. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator is fully accountable for the actions of their contractors and subcontractors. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized Officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values of the discovery. The operator shall be held responsible for the cost of the proper mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or paleontological resources may result in a shutdown order by the Authorized Officer.

IV. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations. Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

V. SPECIAL REQUIREMENT(S)

Timing Limitation Stipulation/Condition of Approval for Lesser Prairie-Chicken: Oil and gas activities including 3-D geophysical exploration, and drilling will not be allowed in lesser prairie-chicken habitat during the period from March 15 through June 15 annually. During that period, other activities that produce noise or involve human activity, such as the maintenance of oil and gas facilities, geophysical exploration other than 3-D operations, and pipeline, road, and well pad construction, will be allowed except between 3:00 am and 9:00 am. The 3:00 am to 9:00 am restriction will not apply to normal, around-the-clock operations, such as venting, flaring, or pumping, which do not require a human presence during this period. Additionally, no new drilling will be allowed within up to 200 meters of leks known at the time of permitting. Normal vehicle use on existing roads will not be restricted. Exhaust noise from pump jack engines must be muffled or otherwise controlled so as not to exceed 75 db measured at 30 ft. from the source of the noise.

VI. CONSTRUCTION

A. NOTIFICATION

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Carlsbad Field Office at (505) 234-5972 at least 3 working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved APD and Conditions of Approval (COA) on the well site and they shall be made available upon request by the Authorized Officer.

B. TOPSOIL

There is no measurable soil on this well pad to stockpile. No topsoil stockpile is required.

C. RESERVE PITS

The reserve pit shall be constructed and closed in accordance with the NMOCD rules.

The reserve pit shall be constructed 120' X 120' on the North side of the well pad.

The reserve pit shall be constructed, so that upon completion of drilling operations, the dried pit contents shall be buried a minimum depth of three feet below ground level. Should the pit content level not meet the three foot minimum depth requirement, the excess contents shall be removed until the required minimum depth of three feet below ground level has been met. The operator shall properly dispose of the excess contents at an authorized disposal site.

The reserve pit shall be constructed and maintained so that runoff water from outside the location is not allowed to enter the pit. The berms surrounding the entire perimeter of the pit shall extend a minimum of two (2) feet above ground level. At no time will standing fluids in the pit be allowed to rise above ground level.

The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.

D. FEDERAL MINERAL MATERIALS PIT

If the operator elects to surface the access road and/or well pad, mineral materials extracted during construction of the reserve pit may be used for surfacing the well pad and access road and other facilities on the lease.

Payment shall be made to the BLM prior to removal of any additional federal mineral materials from any site other than the reserve pit. Call the Carlsbad Field Office at (505) 234-5972.

E. WELL PAD SURFACING

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material may be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational needs.

F. ON LEASE ACCESS ROADS

Road Width

The access road shall have a driving surface that creates the smallest possible surface disturbance and does not exceed fourteen (14) feet in width. The maximum width of surface disturbance, when constructing the access road, shall not exceed thirty (30) feet.

Surfacing

Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, the surfacing material may be required to be removed at the time of reclamation.

Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

Crowning

Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

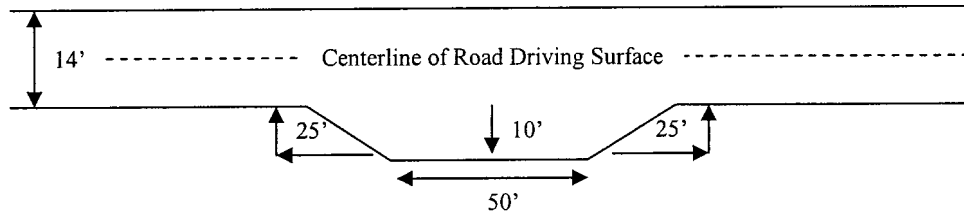
Ditching

Ditching shall be required on both sides of the road.

Turnouts

Vehicle turnouts shall be constructed on the road. Turnouts shall be intervisible with interval spacing distance less than 1000 feet. Turnouts shall be constructed on all blind curves. Turnouts shall conform to the following diagram:

Standard Turnout – Plan View

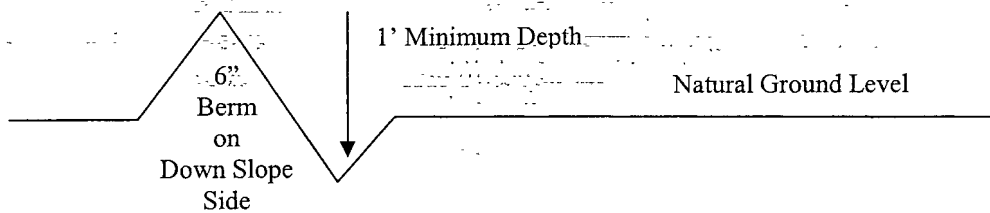


Drainage

Drainage control systems shall be constructed on the entire length of road (e.g. ditches, sidehill outsloping and insloping, lead-off ditches, culvert installation, and low water crossings).

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.

Cross Section of a Typical Lead-off Ditch



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula for Spacing Interval of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

$$400 \text{ foot road with } 4\% \text{ road slope: } \frac{400'}{4\%} + 100' = 200' \text{ lead-off ditch interval}$$

Culvert Installations

Appropriately sized culvert(s) shall be installed at the deep waterway channel flow crossing.

Cattleguards

An appropriately sized cattleguard(s) sufficient to carry out the project shall be installed and maintained at fence crossing(s).

Any existing cattleguard(s) on the access road shall be repaired or replaced if they are damaged or have deteriorated beyond practical use. The operator shall be responsible for the condition of the existing cattleguard(s) that are in place and are utilized during lease operations.

A gate shall be constructed and fastened securely to H-braces.

Fence Requirement

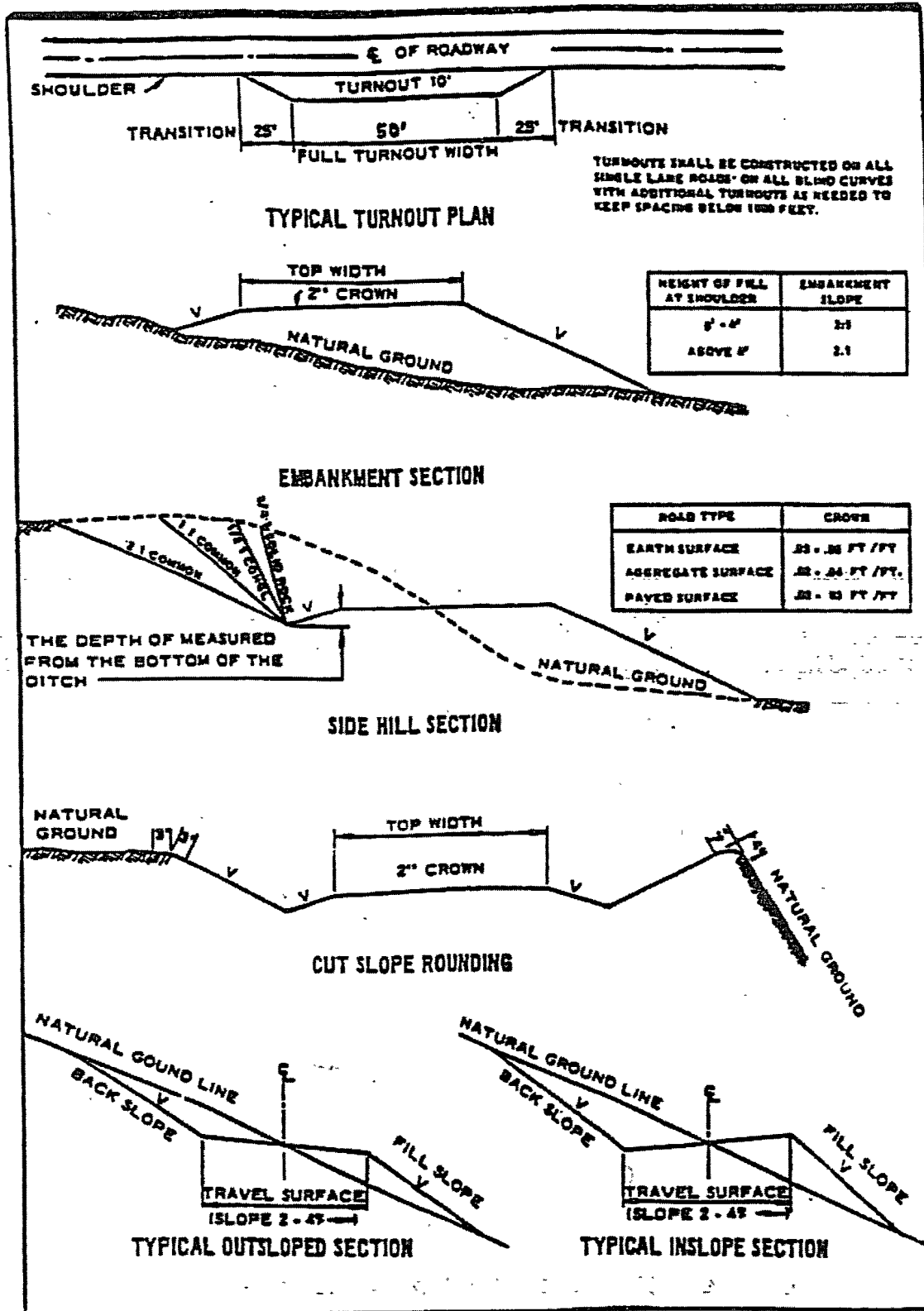
Where entry is required across a fence line, the fence shall be braced and tied off on both sides of the passageway prior to cutting.

The operator shall notify the private surface landowner or the grazing allotment holder prior to crossing any fence(s).

Public Access

Public access on this road shall not be restricted by the operator without specific written approval granted by the Authorized Officer.

Figure 1 – Cross Sections and Plans For Typical Road Sections



VII. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

The BLM is to be notified a minimum of 4 hours in advance for a representative to witness:

- a. Spudding well
- b. Setting and/or Cementing of all casing strings
- c. BOPE tests

Lea County

Call the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240,
(575) 393-3612

1. A Hydrogen Sulfide (H₂S) Drilling Plan should be activated 500 feet prior to drilling into the **Queen** formation. **Hydrogen Sulfide has been measured in this township with 100-1000 ppm in the gas stream and 100-7000 ppm in STVs.**
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.

B. CASING

1. The **8-5/8** inch surface casing shall be set **a minimum of 25 feet into the Rustler Anhydrite and above the salt at approximately 1550** feet and cemented to the surface.
 - a. If cement does not circulate to the surface, the appropriate BLM office shall be notified and a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
 - b. Wait on cement (WOC) time for a primary cement job will be a minimum 18 hours for a water basin, 24 hours in the potash area, or 500 pounds compressive strength, whichever is greater. (This is to include the lead cement).
 - c. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compressive strength, whichever is greater.
 - d. If cement falls back, remedial action will be done prior to drilling out that string.

**Possible lost circulation in the Grayburg and San Andres formations.
Possible water and brine flows in the Salado and Artesia Group.**

2. The minimum required fill of cement behind the 5-1/2 inch production casing is:

Cement should tie-back at least 200 feet into previous casing string. Operator shall provide method of verification.

3. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

C. PRESSURE CONTROL

1. All blowout preventer (BOP) and related equipment (BOPE) shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2 and API RP 53 Sec. 17.

2. The appropriate BLM office shall be notified a minimum of 4 hours in advance for a representative to witness the tests:

a. The tests shall be done by an independent service company.

b. The results of the test shall be reported to the appropriate BLM office.

c. All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.

d. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.

D. DRILL STEM TEST

If drill stem tests are performed, Onshore Order 2.III.D shall be followed.

Engineer on call phone (after hours): Carlsbad: (575) 706-2779

WWI 111507

VIII. PRODUCTION (POST DRILLING)

A. WELL STRUCTURES & FACILITIES

Placement of Production Facilities

Production facilities should be placed on the well pad to allow for maximum interim recontouring and revegetation of the well location.

Containment Structures

The containment structure shall be constructed to hold the capacity of the entire contents of the largest tank, plus 24 hour production, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

Painting Requirement

All above-ground structures including meter housing that are not subject to safety requirements shall be painted a flat non-reflective paint color Shale Green, Munsell Soil Color Chart # 5Y 4/2

B. ELECTRIC LINES

STANDARD STIPULATIONS FOR OVERHEAD ELECTRIC DISTRIBUTION LINES

A copy of the APD and attachments, including stipulations, survey plat and/or map, will be on location during construction. BLM personnel may request to you a copy of your permit during construction to ensure compliance with all stipulations.

Holder agrees to comply with the following stipulations to the satisfaction of the Authorized Officer:

1. The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under this grant.
2. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976 as amended, 15 USC 2601 *et seq.* (1982) with regards to any toxic substances that are used, generated by or stored on the right-of-way or on facilities authorized under this right-of-way grant. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation, and Liability Act, section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the authorized officer concurrent with the filing of the reports to the involved Federal agency or State government.

3. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et seq. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et seq.) on the Right-of-Way (unless the release or threatened release is wholly unrelated to the Right-of-Way holder's activity on the Right-of-Way), or resulting from the activity of the Right-of-Way holder on the Right-of-Way. This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.

4. There will be no clearing or blading of the right-of-way unless otherwise agreed to in writing by the Authorized Officer.

5. Powerlines shall be constructed in accordance to standards outlined in "Suggested Practices for Raptor Protection on Powerlines, " Raptor Research Foundation, Inc., 1981. The holder shall assume the burden and expense of proving that pole designs not shown in the above publication are "raptor safe." Such proof shall be provided by a raptor expert approved by the Authorized Officer. The BLM reserves the right to require modification or additions to all powerline structures placed on this right-of-way, should they be necessary to ensure the safety of large perching birds. Such modifications and/or additions shall be made by the holder without liability or expense to the United States.

6. The holder shall minimize disturbance to existing fences and other improvements on public lands. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting the fence. No permanent gates will be allowed unless approved by the Authorized Officer.

7. The BLM serial number assigned to this authorization shall be posted in a permanent, conspicuous manner where the power line crosses roads and at all serviced facilities. Numbers will be at least two inches high and will be affixed to the pole nearest the road crossing and at the facilities served.

8. Upon cancellation, relinquishment, or expiration of this grant, the holder shall comply with those abandonment procedures as prescribed by the Authorized Officer.

9. All surface structures (poles, lines, transformers, etc.) shall be removed within 180 days of abandonment, relinquishment, or termination of use of the serviced facility or facilities or within 180 days of abandonment, relinquishment, cancellation, or expiration of this grant, whichever comes first. This will not apply where the power line extends service to an active, adjoining facility or facilities.

10. Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on his behalf, on public or Federal land

shall be immediately reported to the Authorized Officer. Holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery will be made by the Authorized Officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to proper mitigation measures will be made by the Authorized Officer after consulting with the holder.

11. Special Stipulations:

- For reclamation remove poles, lines, transformer, etc. and dispose of properly.
- Fill in any holes from the poles removed.

IX. INTERIM RECLAMATION & RESERVE PIT CLOSURE

A. INTERIM RECLAMATION

If the well is a producer, interim reclamation shall be conducted on the well site in accordance with the orders of the Authorized Officer. The operator shall submit a Sundry Notices and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

During the life of the development, all disturbed areas not needed for active support of production operations should undergo interim reclamation in order to minimize the environmental impacts of development on other resources and uses.

At the time reserve pits are to be reclaimed, operators should work with BLM surface management specialists to devise the best strategies to reduce the size of the location. Any reductions should allow for remedial well operations, as well as safe and efficient removal of oil and gas.

During reclamation, the removal of caliche is important to increasing the success of revegetating the site. Removed caliche may be used for road repairs, fire walls or for building other roads and locations. In order to operate the well or complete workover operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing revegetated areas for production or workover operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be revegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

B. RESERVE PIT CLOSURE

The reserve pit, when dried and closed, shall be recontoured, all trash removed, and reseeded as follows:

Seed Mixture 2, for Sandy Sites

The holder shall seed all disturbed areas with the seed mixture listed below. The seed mixture shall be planted in the amounts specified in pounds of pure live seed (PLS)* per acre. There shall be no primary or secondary noxious weeds in the seed mixture. Seed will be tested and the viability testing of seed will be done in accordance with State law (s) and within nine (9) months prior to purchase. Commercial seed will be either certified or registered seed. The seed container will be tagged in accordance with State law(s) and available for inspection by the authorized officer.

Seed will be planted using a drill equipped with a depth regulator to ensure proper depth of planting where drilling is possible. The see mixture will be evenly and uniformly planted over the disturbed area (smaller/heavier seeds have a tendency to drop the bottom of the drill and are planted first). The holder shall take appropriate measures to ensure this does not occur. Where drilling is not possible, seed will be broadcast and the area shall be raked or chained to cover the seed. When broadcasting the seed, the pounds per acre are to be doubled. The seeding will be repeated until a satisfactory stand is established as determined by the authorized officer. Evaluation of growth will not be made before completion of at least one full growing season after seeding.

Species to be planted in pounds of pure live seed* per acre:

| <u>Species</u> | <u>lb/acre</u> |
|---|----------------|
| Sand dropseed (<i>Sporobolus cryptandrus</i>) | 1.0 |
| Sand love grass (<i>Eragrostis trichodes</i>) | 1.0 |
| Plains bristlegrass (<i>Setaria macrostachya</i>) | 2.0 |

*Pounds of pure live seed:

Pounds of seed x percent purity x percent germination = pounds pure live seed
(Insert Seed Mixture Here)

X. FINAL ABANDONMENT & REHABILITATION REQUIREMENTS

Upon abandonment of the well and/or when the access road is no longer in service the Authorized Officer shall issue instructions and/or orders for surface reclamation and restoration of all disturbed areas.

On private surface/federal mineral estate land the reclamation procedures on the road and well pad shall be accomplished in accordance with the private surface land owner agreement.