

0487 Barry
N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Avenue
Artesia, NM 88210
SUBMIT IN TRIPLICATE*
(Other instructions on reverse side)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB NO. 1004-0136
Expires: February 28, 1995

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK DRILL <input checked="" type="checkbox"/> DEEPEN <input type="checkbox"/>		5. LEASE DESIGNATION AND SERIAL NO. LC 065457	
1b. TYPE OF WELL OIL <input type="checkbox"/> GAS <input checked="" type="checkbox"/> WELL WELL OTHER ZONE ZONE		6. IF INDIAN, ALLOTES OR TRIBE NAME	
2. NAME OF OPERATOR Gruy Petroleum Management Co.		7. UNIT AGREEMENT NAME N/A	
3. ADDRESS AND TELEPHONE NO. P.O. Box 140907 Irving TX 75014 972-401-3111		8. FARM OR LEASE NAME, WELL NO. J M Gates Federal NCT-1 No. 4	
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.) 1000' FNL & 1700' FWL Sec 30-24S-26E		9. API WELL NO. 30-015-34052	
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* 17 miles South of Carlsbad		10. FIELD AND POOL, OR WILDCAT White City; Penn	
15. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, T.O (Also to nearest drlg. unit line, if any) 1000'		11. SEC. T.R.M., BLOCK AND SURVEY OR AREA Sec. 30 T24S R26E	
16. NO. OF ACRES IN LEASE 800		12. COUNTY OR PARISH Eddy	
17. NO. OF ACRES ASSIGNED TO THIS WELL 640		13. STATE NM	
18. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 2333'		19. PROPOSED DEPTH 13000'	
20. ROTARY OR CABLE TOOLS Rotary		21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3467' GR	
22. APPROX. DATE WORK WILL START* 04-01-04		CARLSBAD CONTROLLED WATER BASIN	

PROPOSED CASING AND CEMENTING PROGRAM				
SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	J-55 13 3/8"	54.5 #	200'	490 sx circulate
12 1/4"	NS-110 9 5/8"	40 #	1550'	1200 sx circulate
7 7/8"	N-80/P-110 5 1/2"	17 #	13000'	1620 sx TOC 2700'

From the base of the surface pipe through the running of production casing, the well will be equipped with a 5000 - psi BOP system. We are requesting a variance for the 13 3/8" surface casing and BOP testing from Onshore Order No. 2, which states all casing strings below the conductor, shall be pressure tested to .22 psi per foot or 1500 # whichever is greater, but not to exceed 70% of the manufactures stated maximum internal yield. During the running of the surface pipe and the drilling of the intermediate hole we do not anticipate any pressures greater than 1000 # and are requesting a variance to test the 13 3/8" casing and BOP system to 1000 # psi, and use rig pumps instead of an independent service company.

IN ABOVE SPACE, DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24 SIGNED Zand Fany TITLE Mgr. Ops. Admin DATE 01-06-05

(This space for Federal or State office use)

PERMIT No. _____ APPROVAL DATE _____

Approval 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: FOR Maria Ketson TITLE FIELD MANAGER DATE APR - 5 2005

APPROVED BY _____ DATE _____

*See Instructions On Reverse Side

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

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED

APPROVAL FOR 1 YEAR

Application to Drill

Gruy Petroleum Management Co.
J M Gates Federal NCT-1 No. 4
Unit Letter C Section 30
T24S - R26E Eddy County, NM

In response to questions asked under Section II B of Bulletin NTL-6 the following information is provided for your consideration:

- 1 Location: 1000' FNL & 1700' FWL Sec. 30- 24S 26E
- 2 Elevation above sea level: GR 3467'
- 3 Geologic name of surface formation: Quaternary Alluvium Deposits
- 4 Drilling tools and associated equipment: Conventional rotary drilling rig using fluid as a circulating medium for solids removal.
- 5 Proposed drilling depth: 13000'
- 6 Estimated tops of geological markers:

T/Salt	250'	Cisco Canyon	9928
B/Salt	800'	Strawn	10078
Delaware	1500	Atoka	10388
Bone Spring	6168	Morrow	11,158
Wolfcamp	8098	Barnett	11,768

7 Possible mineral bearing formation:

Strawn	Gas
Atoka	Gas
Morrow	Gas

8 Casing program:

Hole Size	Interval	Casing OD	Weight	Thread	Collar	Grade
17 1/2"	0-200'	13 3/8"	54.5	8-R	ST&C	J-55
12 1/4"	0-1530'	9 5/8"	40	8-R	ST&C	NS-110
7 7/8"	0-13000'	5 1/2"	17	8-R	ST&C	N-80 / S-95

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9 Cementing & Setting Depth:

13 3/8"	Surface	Set 250' of 13 3/8" J-55 54.5 ST&C casing. Cement with 490 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 1530' of 9 5/8" NS-110 40# ST&C casing or casing sufficient to reach the base of the reef complex. Cement in two stages, first stage cement with 1000 Sx. Of Class POZ/C Cement + additives, second stage cement with 200 Sx. Of Class "C" + additives, circulate cement to surface.
5 1/2"	Production	Set 13000' of 5 1/2" NP-80 / S-95 17# ST&C casing. Cement in two stages, first stage cement with 1020 Sx. of Class POZ/C Cement + additives. Second stage cement with 600 Sx of Class "C" Estimated top of cement 2700'.

10 Pressure control Equipment:

Exhibit "E". A 13 3/8" 5000 PSI working pressure B.O.P. consisting of one set of blind rams and one set of pipe rams and a 5000 # annular type preventer. A choke manifold and 120 gallon accumulator with floor and remote operating stations and auxiliary power system. Rotating head below 6000'. 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. BOP unit will be hydraulically operated. BOP will be nipped up on the 9 5/8" casing and will be operated at least once a day while drilling and the blind rams will be operated when out of hole during trips. No abnormal pressure or temperature is expected while drilling.

11 Proposed Mud Circulating System:

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 - 350'	8.4 - 8.6	30 - 32	May lose circ.	Fresh water spud mud add paper to control seepage and high viscosity sweeps to clean hole.
350' - 1530'	9.7 - 10.0	28 - 29	May lose circ	Brine water. Add paper as needed to control seepage and add lime to control pH (9-10). Use high viscosity sweeps to clean hole.
1530' - 8300'	8.4 - 9.9	28 - 29	NC	Fresh water. Paper for seepage. Lime for pH (9 - 9.5)
8300' - 10000'	8.45 - 8.9	28 - 29	NC	Cut brine. Caustic for pH control.
10000' - 13000'	8.9 - 9.7	29 - 45	NC	XCD Polymer mud system.

Sufficient mud materials will be kept on location at all times in order to combat lost circulation, or unexpected kicks. In order to run DST's, open hole logs, and casing, the viscosity and water loss may have to be adjusted in order to meet these needs. 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 production casing is run and cemented.

Application to Drill

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12 Testing, Logging and Coring Program:

- A. Mud logging program: One-man unit from 8000' to TD
- B. Electric logging program: CNL / LDT / CAL / GR, DLL / CAL / GR
- C. No DST's, or cores are planned at this time.

13 Potential Hazards:

No abnormal pressures or temperatures or H2S gas are expected. Adequate flare lines will be installed off the mud / gas separator where gas may be flared safely. All personnel will be familiar with all aspects of safe operation of equipment being used. Estimated BHP 4000 PSI, estimated BHT 190.

14 Anticipated Starting Date and Duration of Operations:

Road and location construction will begin after BLM approval of APD. Anticipated spud date as soon as approved. Drilling expected to take 35 - 45 days. If production casing is run an additional 30 days will be required to complete and construct surface facilities.

15 Other Facets of Operations:

After running casing, cased hole gamma ray neutron collar logs will be run from total depth over possible pay intervals. The Strawn / Morrow / Atoka pay will be perforated and stimulated. The well will be tested and potentialized as a gas well.

Surface Use Plan

Gruy Petroleum Management Co.
J M Gates Federal NCT-1 No. 4
Unit Letter C Section 30
T24S - R26E Eddy County, NM

- 1 Existing Roads: Area maps, Exhibit "B" is a reproduction of Lea Co. General Highway Map. Exhibit "C" is a reproduction of a USGS Topographic Map, showing existing roads and proposed roads. All existing roads will be maintained in a condition equal to or better than current conditions. Any new roads will be constructed to BLM specifications.
 - A. Exhibit "A" shows the proposed well site as staked.
 - B. From the intersection of Hwy 62-180 and Eddy County road # 722. Go south on Co. Rd. 722 for 1.9 miles to Eddy County Road # 426. Turn right (west) and go approx. 0.6 miles. Turn right (north) at lease Rd. Go 0.5 miles to existing Chevron NCT-1 well. Proposed well lies on west side of well pad. Go
- 2 PLANNED ACCESS ROADS: 2195' of access road will be constructed.
- 3 LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A"
 - A. Water wells - Well 20054 and Woodruff well.
 - B. Disposal wells - None known
 - C. Drilling wells - None known
 - D. Producing wells - As shown on Exhibit "A"
 - E. Abandoned wells - As shown on Exhibit "A"

Surface Use Plan

Gruy Petroleum Management Co.
J M Gates Federal NCT-1 No. 4
Unit Letter C Section 30
T24S - R26E Eddy County, NM

- 4 If, on completion this well is a producer Gruy Petroleum Management Co. will furnish maps and/or plats showing on site facilities or off site facilities if needed. This will be accompanied with a Sundry Notice.

5 LOCATION AND TYPE OF WATER SUPPLY:

Water will be purchased locally from a commercial source and trucked over the access roads or piped in flexible lines laid on top of the ground.

6 SOURCE OF CONSTRUCTION MATERIAL:

If possible construction will be obtained from the excavation of drill site, if additional material is needed it will be purchased from a local source and transported over the access route as shown on Exhibit "C".

7 METHODS OF HANDLING WASTE MATERIAL:

- A. Drill cuttings will be disposed of in the reserve pit.
- B. All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering. When the job is completed all contents will be removed and disposed of in a approved sanitary land fill.
- C. Salts remaining after completion of well will be picked up by supplier including broken sacks.
- D. Sewage from living quarters will drain into holding tanks and be cleaned out periodically. A Porta-John will be provided for the rig crews. This equipment will be properly maintained during the drilling operations and removed upon completion of the well.
- E. Remaining drilling fluids will be allowed to evaporate in the reserve pit until the pit is dry enough for breaking out. In the event that drilling fluids do not evaporate in a reasonable time they will be hauled off by transports and be disposed of at a state approved disposal facility. Later pits will be broken out to speed drying. Water produced during testing will be put in reserve pits. Any oil or condensate produced will be stored in test tanks until sold and hauled from the site.

8 ANCILLARY FACILITIES:

- A. No camps or airstrips to be constructed.

Surface Use Plan

Gruy Petroleum Management Co.
J M Gates Federal NCT-1 No. 4
Unit Letter C Section 30
T24S - R26E Eddy County, NM

9 WELL SITE LAYOUT

- A. Exhibit "D" shows location and rig layout.
- B. This exhibit indicates proposed location of reserve and trash pits; and living facilities.
- C. Mud pits in the active circulating system will be steel pits and the reserve pit is proposed to be unlined, unless subsurface condition encountered during pit construction indicate that lining is needed for lateral containment of fluids.
- D. If needed, the reserve pit is to be lined with PVC or polyethylene line. The pit liner will be 6 mils thick. Pit liner will extend a minimum, 2'00" over the reserve pits dikes where the liner will be anchored down.
- E. The reserve pit will be fenced on three sides with four strands of barbed wire during drilling and completion phases. The fourth side will be fenced after all drilling operations have ceased. If the well is a producer, the reserve pit fence will be torn down. The reserve pit and those areas of the location not essential to production facilities will be reclaimed and seeded per BLM requirements.

10 PLANS FOR RESTORATION OF SURFACE

Rehabilitation of the location and reserve pit will start in a timely manner after all drilling operations cease. The type of reclamation will depend on whether the well is a producer or a dry hole.

However, in either event, the reserve pit will be allowed to dry properly, and fluid removed and disposed of in accordance with Article 7.B as previously noted. The pit area will then be leveled and contoured to conform to the original and surrounding area. Drainage systems, if any, will be reshaped to the original configuration with provisions made to alleviate erosion. These may need to be modified in certain circumstances to prevent inundation of the location's pad and surface facilities. After the area has been shaped and contoured, topsoil from the spoil pile will be placed over the disturbed area to the extent possible. Revegetation procedures will comply with BLM standards.

If the well is a dry hole, the pad and road area will be recontoured to match the existing terrain. Topsoil will be spread to the extent possible. Revegetation will comply with BLM standards.

Should the well be a producer, the previously noted procedures will apply to those areas which are not required for production facilities.

Surface Use Plan

Gruy Petroleum Management Co.
J M Gates Federal NCT-1 No. 4
Unit Letter C Section 30
T24S - R26E Eddy County, NM

11 OTHER INFORMATION:

- A. Topography consists of a sloping plane with loose tan sands. Vegetation is mainly yucca, mesquite and shin oak.
- B. The wellsite is on surface owned by The United States Department of the Interior, Bureau of Land Management. The land is used mainly for farming, cattle ranching, recreational use, and oil and gas production.
- C. An Archaeological survey will be conducted on the location and proposed roads, and this report will be filed with the Bureau of Land Management in the Carlsbad BLM office.
- D. Wes Ables house in the SW/4 of section 20 is within 1 1/2 miles of this location.

12 OPERATORS REPRESENTATIVE:

Gruy Petroleum Management Company
P.O. Box 14097
Irving, TX 75014
Office Phone: (972) 443-6489
Zeno Farris

- 13 **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 currently 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 Gruy Petroleum Management Company contractors/subcontractors in the conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provision of U.S.C. 1001 for the filing of a false statement.

NAME: Zeno Farris

DATE: 1/6/2005

TITLE: Manager, Operations Administration

State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-102

Revised JUNE 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

DISTRICT I
FRENCH DR., BOBBS, 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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
		White City; Penn (Gas)
Property Code	Property Name	Well Number
	JM GATES FEDERAL NCT-1	4
OGRID No.	Operator Name	Elevation
162683	GRUY PETROLEUM MANAGEMENT COMPANY	3467'

Surface Location

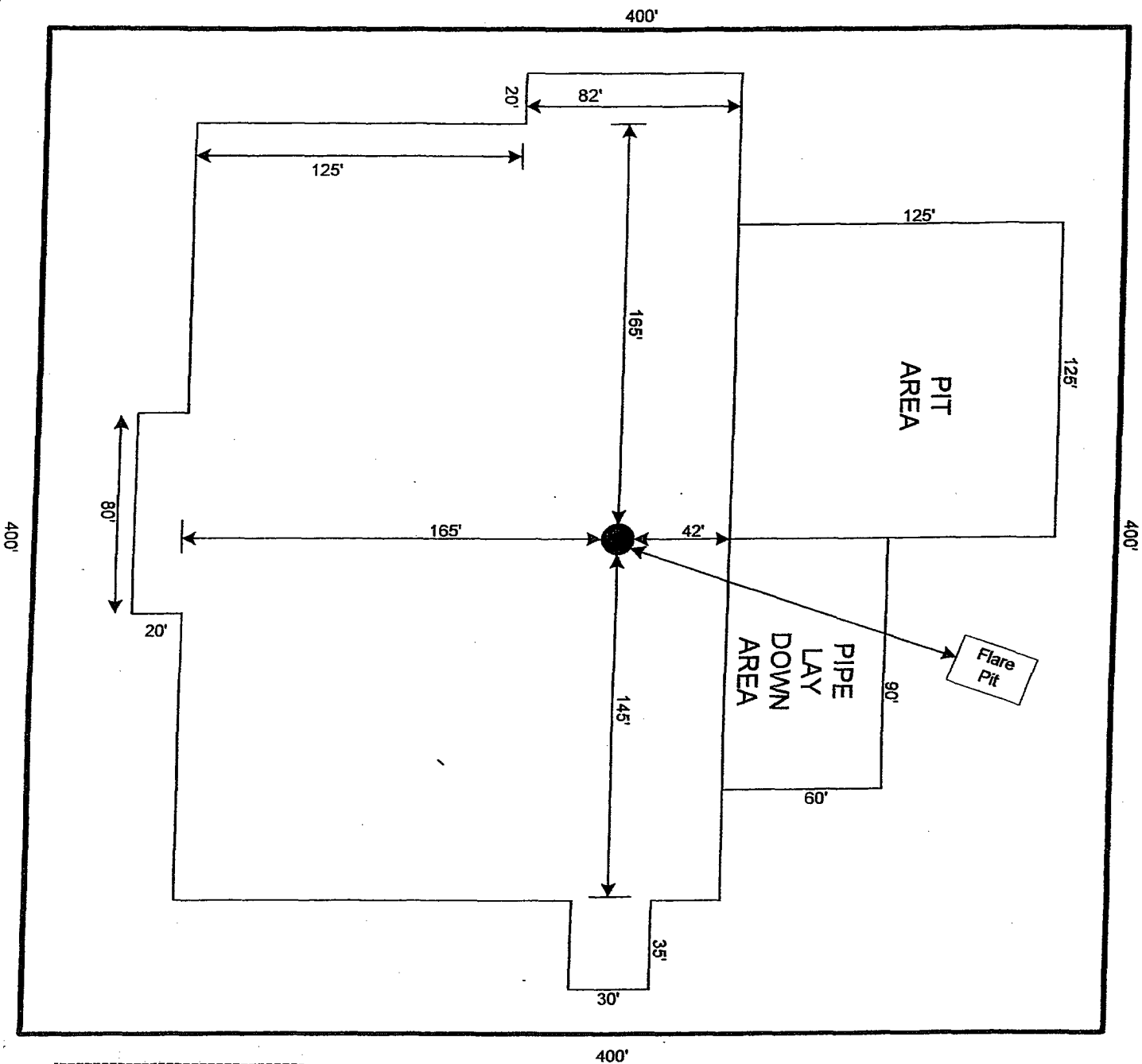
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	30	24-S	26-E		1000	NORTH	1700	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						
640	Y	C							

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

	<h4>OPERATOR CERTIFICATION</h4> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Zeno Farris</i> Signature Zeno Farris Printed Name Manager Operations Admin. Title January 10, 2005 Date</p> <h4>SURVEYOR CERTIFICATION</h4> <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>DECEMBER 16, 2004</p> <p>Date Surveyed Signature & Seal of Professional Surveyor Professional Surveyor Certificate No. GARY EIDSON 12641</p>
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RIG # 80

GRUY PETROLEUM
MANAGEMENT COMPANY
IRVING TEXAS

SCALE 1"=60'

Exhibit D
Rig Layout Plan
JM Gates Federal NCT-1 No. 4
Gruy Petroleum Management Co.
Unit C-Section 30-T24S-R26E
1000' FNL & 1700' FWL
Eddy County, NM

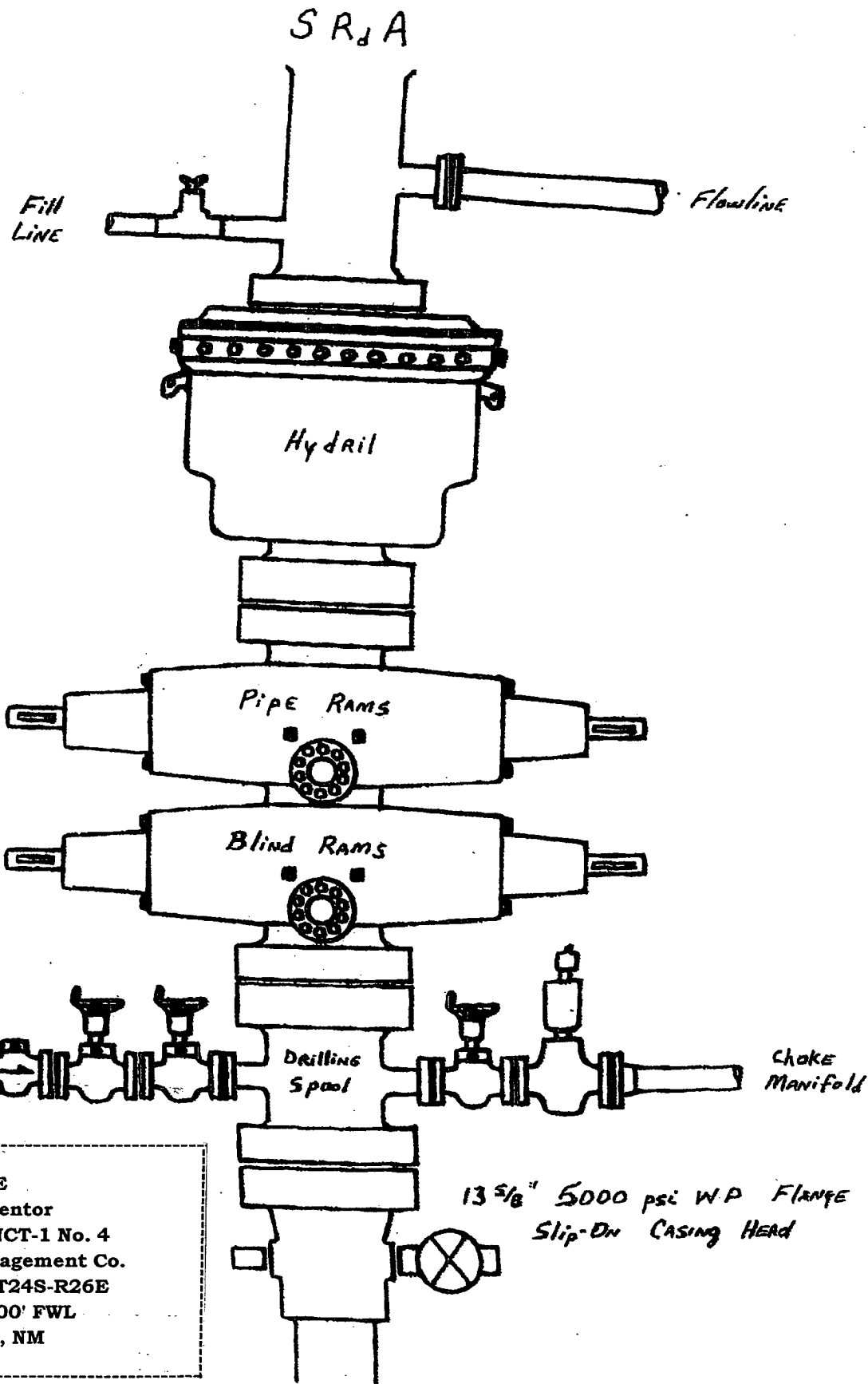


Exhibit E
Blowout Preventor
JM Gates Federal NCT-1 No. 4
Gruy Petroleum Management Co.
Unit C-Section 30-T24S-R26E
1000' FNL & 1700' FWL
Eddy County, NM

Aug-19-2004 18:05

From-PATTERSON DRILLING

4920821885

T-739 P.005/009 F-908

**DRILLING OPERATIONS
CHOKE MANIFOLD
5M SERVICE**

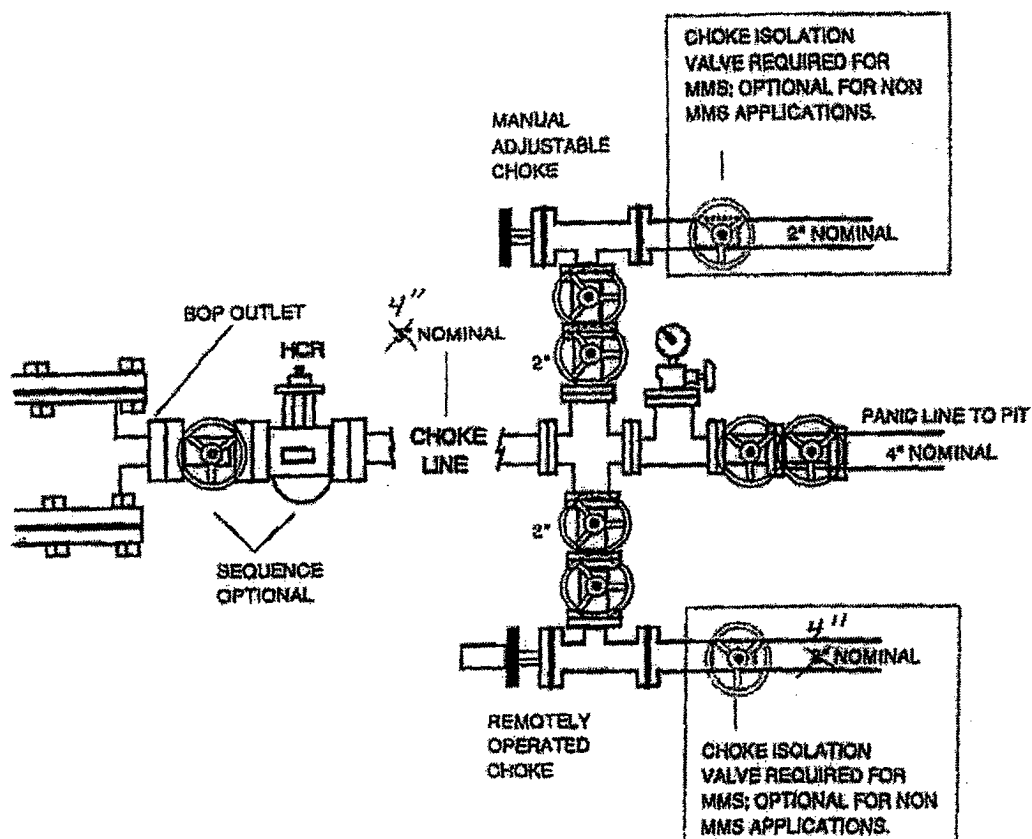
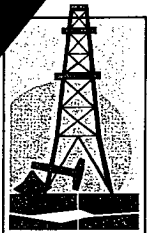


Exhibit E-Cont'd
Blowout Preventor-Choke Manifold
JM Gates Federal NCT-1 No. 4
Gruy Petroleum Management Co.
Unit C-Section 30-T24S-R26E
1000' FNL & 1700' FWL
Eddy County, NM



Gruy Petroleum Management Co.

600 East Las Colinas Blvd. • Suite 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6450
Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907

A wholly-owned subsidiary of Magnum Hunter Resources, Inc., a NYSE company MHR

RECEIVED

JAN 11 PM 12:28

BLM FIELD OFFICE
ROSWELL, NM

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

Bureau of Land Management
2909 West 2nd Street
Roswell New Mexico 88201-2019
Attn: Ms. Linda Askwig

Gruy Petroleum Management Co. accepts all applicable terms, conditions, stipulations and restrictions concerning operations conducted on the leased land, or portion thereof, as described below:

Lease No.: LC - 065457

Legal Description: All Sec 30, T24S-R26E
Containing 640 acres, Eddy County New Mexico

Formation (S): Morrow/Pennsylvanian

Bond Coverage: Nationwide BLM Bond

BLM Bond File No.: NM 2575

Authorized Signature:

Zeno Farris

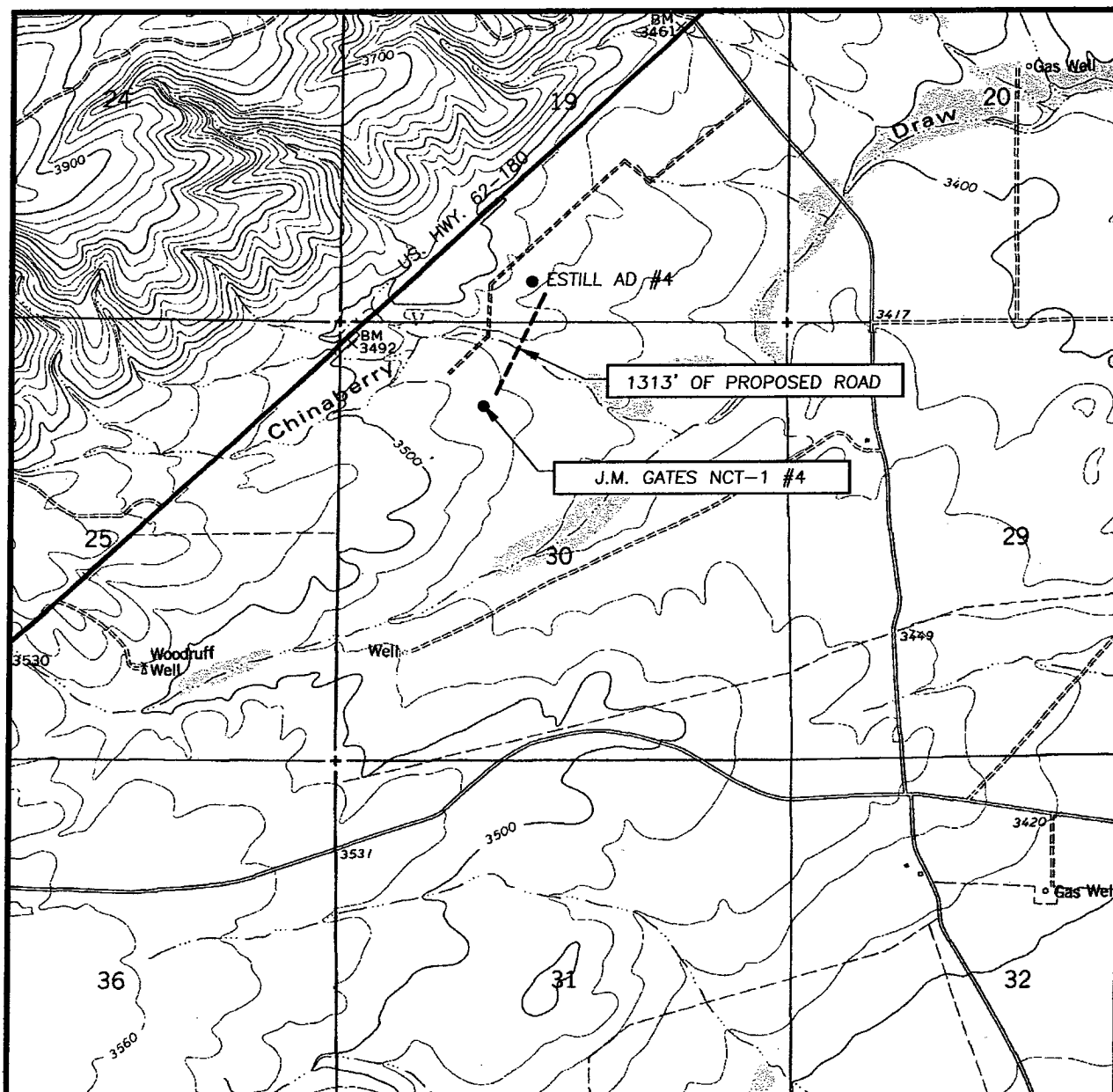
Representing Gruy Petroleum Management Co.

Name: Zeno Farris

Title: Manager, Operations Administration

Date: 01/06/05

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
BLACK RIVER VILLAGE, N.M. - 20'

SEC. 30 TWP. 24-S RGE. 26-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 1000' FNL & 1700' FWL

ELEVATION 3467'

OPERATOR GRUY PETROLEUM
MANAGEMENT COMPANY

LEASE J.M. GATES NCT-1

U.S.G.S. TOPOGRAPHIC MAP
BLACK RIVER VILLAGE, N.M.



PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(505) 393-3117