

N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Avenue
Artesia, NM 88210
Other instructions on reverse side

FORM APPROVED

OMB NO. 1004-0136

Expires: February 28, 1995

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

5. LEASE DESIGNATION AND SERIAL NO.

NMNM 112254

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME, WELL NO.

Vern 1 Federal No. 1

9. API WELL NO.

30-015-34109

10. FIELD AND POOL, OR WILDCAT

Under Chas Draw, McNew

11. SEC. T., R., M., BLOCK AND SURVEY

OR AREA

Sec. 1 T25S R25E

12. COUNTY OR PARISH

Eddy

13. STATE

NM

1a. TYPE OF WORK

DRILL ☒

DEEPEN ☐

1b. TYPE OF WELL

OIL ☐
WELL

GAS ☒
WELL

OTHER ☐
ZONE

SINGLE ☐
MULTIPLE ☐
ZONE

2. NAME OF OPERATOR

Gruy Petroleum Management Co.

3. ADDRESS AND TELEPHONE NO.

P.O. Box 140907 Irving TX 75014 972-401-3111

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)

1600' FNL & 1200' FEL Sec 1-25S-25E

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE

17 miles South of Carlsbad

15. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, T.O. (Also to nearest drlg. unit line, if any)

1200'

16. NO. OF ACRES IN LEASE

640

17. NO. OF ACRES ASSIGNED TO THIS WELL

E/2 320.10

18. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.

NA

19. PROPOSED DEPTH

13000'

20. ROTARY OR CABLE TOOLS

Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)
3508' GR

22. APPROX. DATE WORK WILL START*
03-15-05

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' WITNESS	490 sx circulate
12 1/4"	NS-110 9 5/8"	40 #	1900'	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.

CARLSBAD CONTROLLED WATER BASIN

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.

SIGNED

Zeno F. Amis

TITLE

Mgr. Ops. Admin

DATE

02-21-05

(This space for Federal or State office use)

PERMIT No.

APPROVAL DATE

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

APPROVED BY

Tony J. Herrell

TITLE

FIELD MANAGER

DATE

MAY 10 2005

*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.

Salt, 29.5

APPROVAL FOR 1 YEAR

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, 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

FEB 25 2005

OCD-ARTESIA

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 ☐

Operator: Gruy Petroleum Management Co. Telephone: 972-443-6489 e-mail address: zfarris@magnumhunter.com

Address: P.O. Box 140907, Irving, Tx 75014-0907

Facility or well name: Vern 1 Federal No. 1 API #: 30-05-34109 U/L or Qtr/Qtr H Sec 1 T 25S R 25E

County: Eddy Latitude 320942.82 N Longitude 1042039.13 W NAD: 1927 ☒ 1983 ☐ Surface Owner Federal ☐ State ☐ Private ☐ Indian ☐

Pit

Type: Drilling ☒ Production ☐ Disposal ☐

Workover ☐ Emergency ☐

Lined ☒ Unlined ☐

Liner type: Synthetic ☒ Thickness 12 mil Clay ☐ Volume
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.)

Less than 50 feet

(20 points)

50 feet or more, but less than 100 feet

(10 points)

100 feet or more

(0 points)

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

Yes

(20 points)

No

(0 points)

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

Less than 200 feet

(20 points)

200 feet or more, but less than 1000 feet

(10 points)

1000 feet or more

(0 points)

Ranking Score (Total Points)

-0-

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 ☐, or an (attached) alternative OCD-approved plan ☐.

Date: 2-21-05

Printed Name/Title Zeno Farris Manager Operations Administration

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: FEB 25 2005

Printed Name/Title

Signature

DISTRICT I
1625 N. FRENCH DR., HOBBS, NM 88240

State of New Mexico
Energy, Minerals and Natural Resources Department

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210

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

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

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

Form C-102
Revised JUNE 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name Morrow
Property Code	Property Name VERN 1 FEDERAL	Well Number 1
OGRID No. 162683	Operator Name GRUY PETROLEUM MANAGEMENT COMPANY	Elevation 3508'

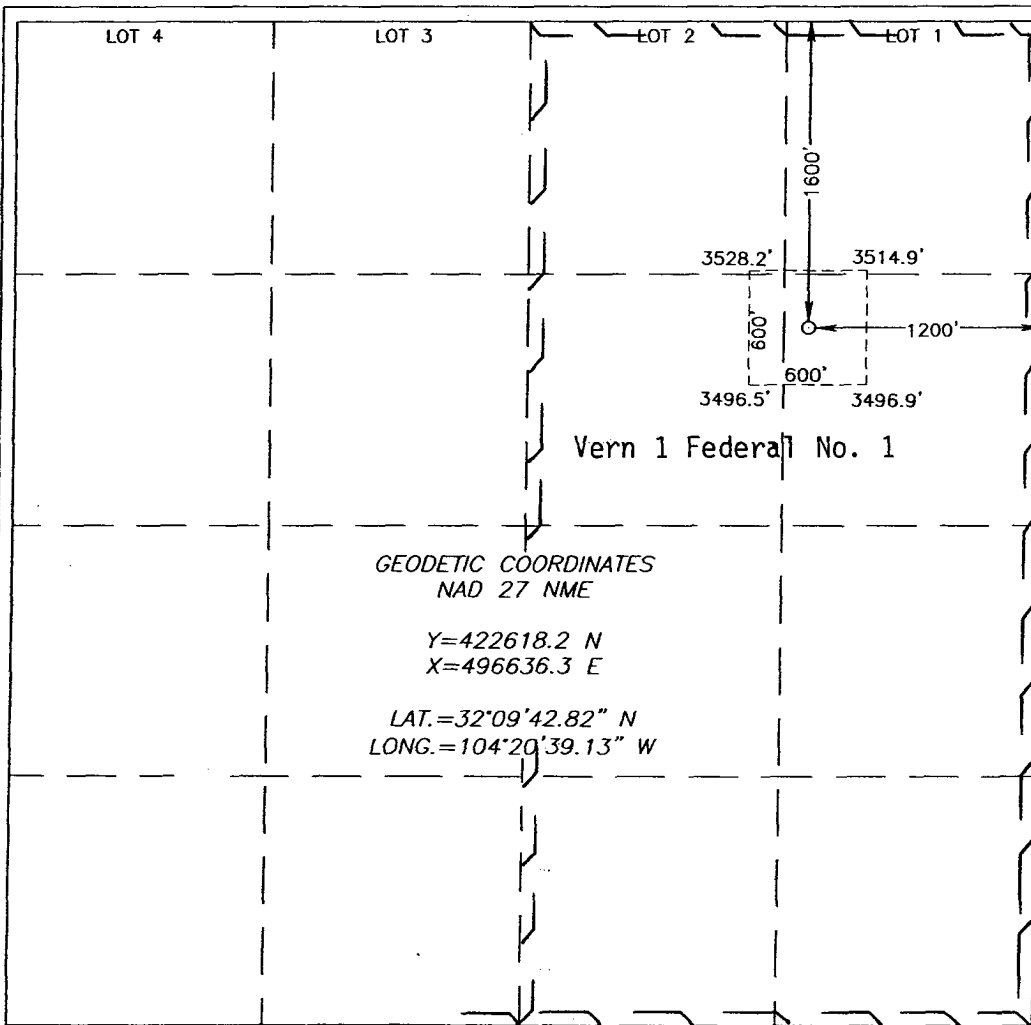
Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
H	1	25-S	25-E		1600	NORTH	1200	EAST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres 320.10	Joint or Infill N	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



OPERATOR CERTIFICATION

I hereby certify the the information
contained herein is true and complete to the
best of my knowledge and belief.

Zeno Farris

Signature
Zeno Farris
Printed Name
Manager Operations Admin
Title
February 21, 2005
Date

SURVEYOR CERTIFICATION

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.

Date Surveyed 12641
Signature & Seal of
Professional Surveyor

Gary Eidsen 2/9/05
05.11.0162

Certificate No. GARY EIDSON 12641

Application to Drill

Gruy Petroleum Management Co.
Vern 1 Federal No. 1
Unit Letter H Section 1
T25S - R25E 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: 1600' FNL & 1200' FEL Sec. 1- 25S 25E

2 Elevation above sea level: GR 3508'

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	200'	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"	0-1900'	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

Application to Drill

Gruy Petroleum Management Co.
Vern 1 Federal No. 1
Unit Letter H Section 1
T25S - R25E Eddy County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 200' 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 1900' 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'.

WITNESS

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 - 200'	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.
200' - 1900'	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.
1900' - 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

Gruy Petroleum Management Co.
Vern 1 Federal No. 1
Unit Letter H Section 1
T25S - R25E Eddy County, NM

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.

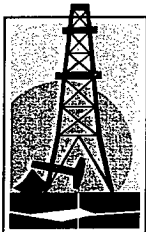
15 Other Facets of Operations:

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.
Vern 1 Federal No. 1
Unit Letter H Section 1
T25S - R25E 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 # 426 (Cresote Rd.) Go east on Co. Rd. 426 for 1.2 miles to a cattlegaurd and fence. Turn right, south on trail rd. and go 0.3 miles to a proposed road survey west and south 1531' to the Park State 36 Com # 1 location. Follow proposed road survey
- 2 PLANNED ACCESS ROADS: 3199' of access road will be constructed.
- 3 LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A"
 - A. Water wells - Well 20070
 - 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"



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

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.: NMNM - 112254

Legal Description: E/2 Sec 1, T25S-R25E
Containing 320 acres, Eddy County New Mexico

Formation (S): Morrow/Pennsylvanian

Bond Coverage: Nationwide BLM Bond

BLM Bond File No.: NM 2575

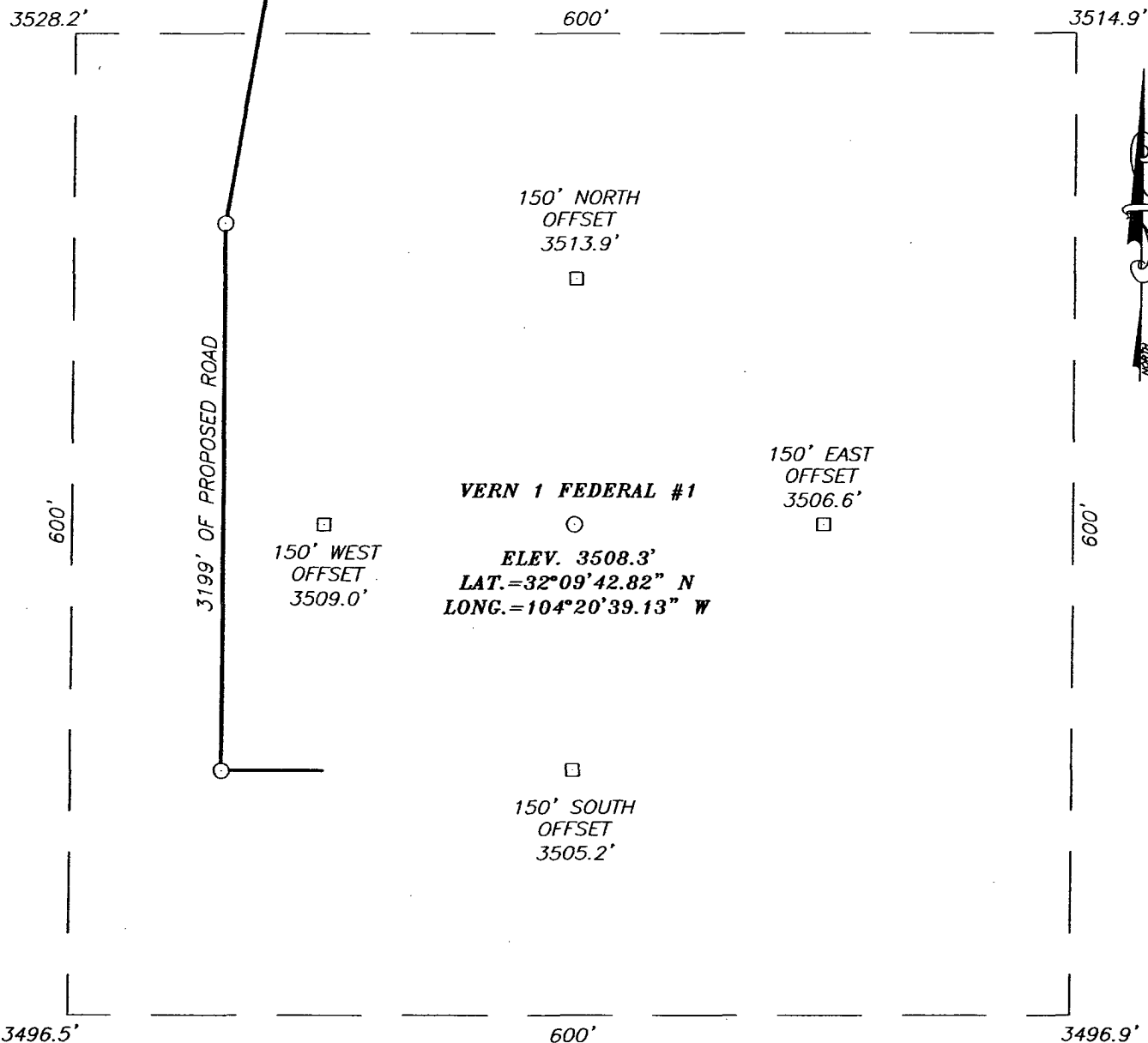
Authorized Signature: Zeno Farris
Representing Gruy Petroleum Management Co.

Name: Zeno Farris

Title: Manager, Operations Administration

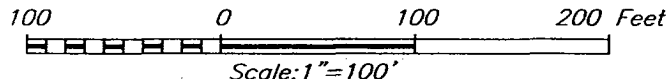
Date: 02/21/05

SECTION 1, TOWNSHIP 25 SOUTH, RANGE 25 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF U.S. HWY. #62-180 AND CO. RD. #426 (CREOSOTE RD.) GO EAST ON CO. RD. #426 FOR APPROX. 1.2 MILES TO A CATTLEGAURD AND FENCE. TURN RIGHT (SOUTH) ON TRAIL RD. AND GO APPROX. 0.3 MILES TO A PROPOSED ROAD SURVEY. FOLLOW PROPOSED ROAD SURVEY WEST AND SOUTH APPROX. 1531' TO THE PROPOSED PARK STATE 36 COM #1 LOCATION. FOLLOW PROPOSED ROAD SURVEY SOUTH/SW APPROX. 3199' TO THIS LOCATION.



GRUY PETROLEUM MANAGEMENT COMPANY

VERN 1 FEDERAL #1 WELL
 LOCATED 1600 FEET FROM THE NORTH LINE
 AND 1200 FEET FROM THE EAST LINE OF SECTION 1,
 TOWNSHIP 25 SOUTH, RANGE 25 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO.

Survey Date: 2/2/05	Sheet 1 of 1 Sheets
W.O. Number: 05.11.0162	Dr By: J.R.
Date: 2/8/05	Disk: CD#5
05110162	Scale: 1"=100'

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

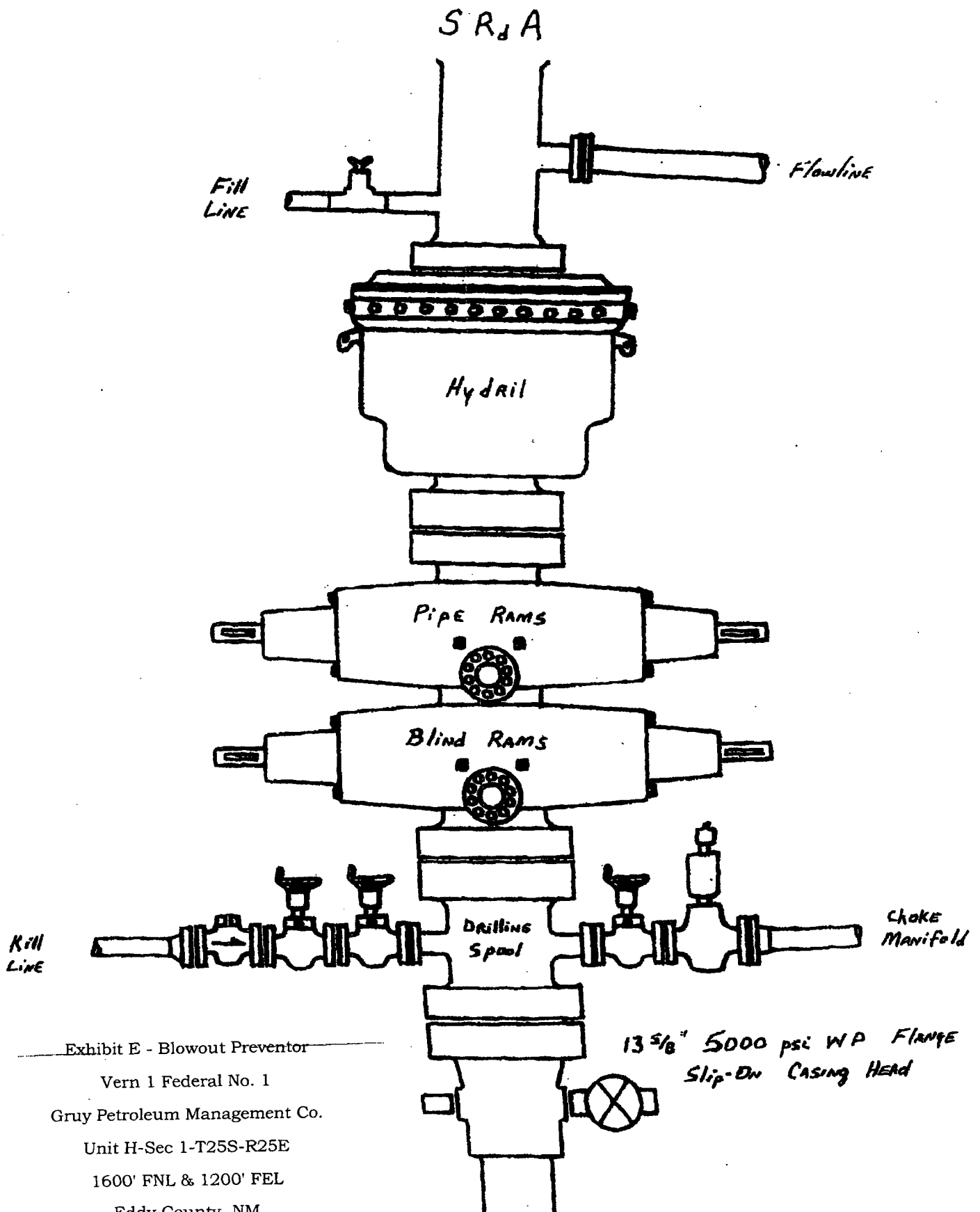


Exhibit E - Blowout Preventor

Vern 1 Federal No. 1

Gruy Petroleum Management Co.

Unit H-Sec 1-T25S-R25E

1600' FNL & 1200' FEL

Eddy County, NM

**DRILLING OPERATIONS
CHOKE MANIFOLD
5M SERVICE**

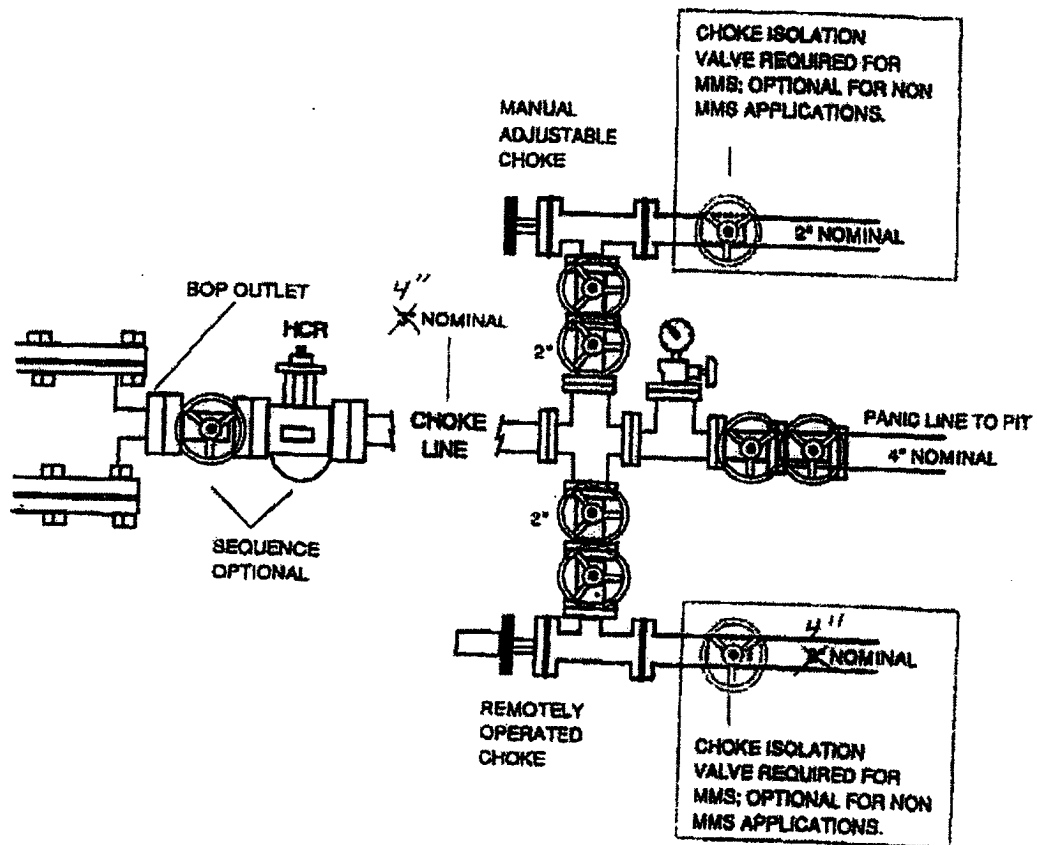


Exhibit E-1 - Choke Manifold Diagram

Vern 1 Federal No. 1

Gruy Petroleum Management Co.

Unit H-Sec 1-T25S-R25E

1600' FNL & 1200' FEL

Eddy County, NM