

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

1S. DIV-Dist. 2
rand Avenue
VM 8210
Other instructions on
back side

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

DEPAR.
BUREAU OF LAND MANAGEMENT

0152

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK
DRILL ☒ DEEPEN ☐
1b. TYPE OF WELL
OIL ☐ GAS ☒ SINGLE ☐ MULTIPLE ☐
WELL WELL OTHER ZONE ZONE

2. NAME OF OPERATOR
Gruy Petroleum Management Co.
3. ADDRESS AND TELEPHONE NO.
P.O. Box 140907 Irving TX 75014 972-401-3111

RECEIVED

JAN 04 2006

OOD-ARTSBA

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)
SUBJECT TO LIKE APPROVAL BY STATE

SHL: 210' FSL & 510' FWL

BHL: 1237' FSL & 984' FWL

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*
1/2 mile SW of Black River Village

15. DISTANCE FROM PROPOSED*
LOCATION TO NEAREST
PROPERTY OR LEASE LINE, T.O
(Also to nearest drlg. unit line, if any) 210'

16. NO. OF ACRES IN LEASE
640

17. NO. OF ACRES ASSIGNED
TO THIS WELL
320

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

19. PROPOSED DEPTH
12800'

20. ROTARY OR CABLE TOOLS
Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)
3352' GR

Carlsbad Controlled Water Basin

22. APPROX. DATE WORK WILL START*
February 15, 2006

PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	H-40 ST&C 13 3/8"	48#	200'	225 sx circulate
12-1/4"	J-55 LT&C 9 5/8"	40 #	2750'	1000 sx circulate
8-3/4"	P-110 LT&C 5 1/2"	17 #	12800'	1920 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 0.22 psi per foot or 1500#, whichever is greater, but not to exceed 70% of the manufacturer's 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 to 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 Zino Fami TITLE Mgr. Ops. Admin DATE 11-07-05

(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 State case which would entitle the applicant to conduct operations thereon.

CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY /s/ Joe G. Lara TITLE FIELD MANAGER DATE DEC 28 2005

*See Instructions On Reverse Side

APPROVAL FOR 1 YEAR

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

✓

DISTRICT I
1625 N. FERNCE DR., HOBBES, 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

State of New Mexico
Energy, Minerals and Natural Resources Department

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 97255	Under. Black River; Morrow, Southwest	Pool Name
Property Code	Property Name TAOS FEDERAL		Well Number 1
OGRID No. 162683	Operator Name Gruy Petroleum Management Co.		Elevation 3352'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
4	31	24-S	27-E		210	SOUTH	510	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
4	31	24-S	27-E		1237	SOUTH	984	WEST	EDDY

Dedicated Acres 304 320	Joint or Infill N	Consolidation Code	Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

LOT 1 GEODETIC COORDINATES NAD 27 NME Y=424404.9 N X=530158.8 E LAT.=32°10'00.37" N LONG.=104°14'09.13" W 36.00 AC LOT 2 36.00 AC LOT 3 36.00 AC LOT 4 36.00 AC DETAIL 3350.4' 3374.7' 600' 3393.3' 3357.5' 510' 210' SEE DETAIL Project area Producing area SHL: 210' FSL & 510' FWL Penetration Point Wolfcamp: 726' FSL & 748' FWL BHL: 1237' FSL & 984' FWL	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 Mgr Operations Admin Title November 17, 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. OCTOBER 20, 2005 Date Surveyed Signature Professional Surveyor RONALD J. EIDSON NEW MEXICO 05.11.571 10/25/04 Certificate No. RONALD J. EIDSON 3239
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District I
1301 W. Grand Avenue, Artesia, NM 88210
District II
1000 Rio Brazos Road, Aztec, NM 87410
District III
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 ☐

Operator: Gruy Petroleum Management Co. Telephone: 972-443-6489 e-mail address: zfarris@cimarex.com
Address: P.O. Box 140907, Irving, Tx 75014-0907
Facility or well name: Taos Federal No. 1 API #: 30-015- U/L or Qtr/Qtr⁴ Sec 31 T24S R27E
County: Eddy Latitude 321000.37N Longitude 1041409.13W 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
13000 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
50 feet or more, but less than 100 feet
100 feet or more

(20 points)
(10 points)
(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
No

(20 points)
(0 points)

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)

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: 11-03-05

Printed Name/Title Zeno Farris Manager Operations Administration

Signature *Zeno Farris*

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: NOV 16 2005

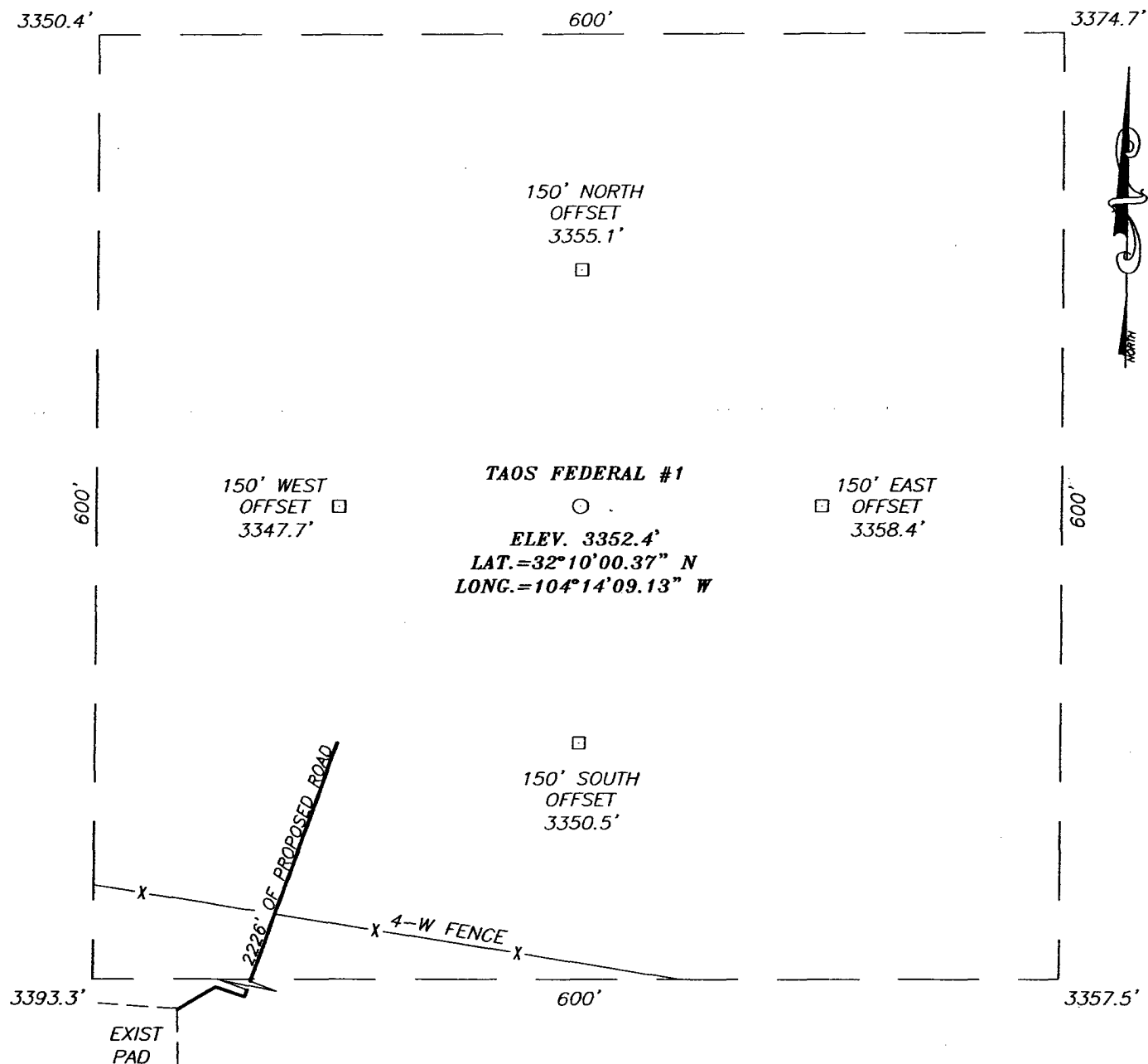
Date: _____

Printed Name/Title _____

Field Supervisor

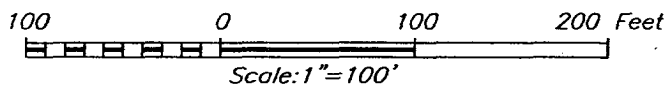
Signature *[Signature]*

SECTION 31, TOWNSHIP 24 SOUTH, RANGE 27 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

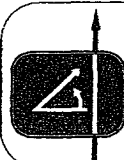
FROM THE INTERSECTION OF CO. RD. #720 (BLACK RIVER VILLAGE) AND CO. RD. #742 (JOHN C. FOREHAND) GO SOUTH ON CO. RD. #742 FOR APPROX. 3.9 MILES TO A CALICHE ROAD ON THE RIGHT. TURN RIGHT (WEST) AND GO APPROX. 0.8 MILES. TURN LEFT (SW) AND GO APPROX. 1.1 MILES. TURN LEFT (SOUTH) AND GO APPROX. 0.2 MILES. TURN LEFT (SE) AND GO APPROX. 0.4 MILES. VEER LEFT (SE) AND GO APPROX. 0.4 MILES. TURN LEFT (NORTH) AND GO APPROX. 0.3 MILES TO THE NWc OF PAD FOR THE MARQUARDT 1 FED #2 WELL. FOLLOW PROPOSED ROAD SURVEY FORM THE NWc OF PAD APPROX. 0.4 MILES TO THIS LOCATION.



Gruy Petroleum Management Co.

TAOS FEDERAL #1 WELL
 LOCATED 210 FEET FROM THE SOUTH LINE
 AND 510 FEET FROM THE WEST LINE OF SECTION 31,
 TOWNSHIP 24 SOUTH, RANGE 27 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO.

Survey Date: 10/20/05	Sheet 1 of 1 Sheets
W.O. Number: 05.11.1571	Dr By: J.R. Rev 1:N/A
Date: 10/24/05	Disk: CD#5 05111571 Scale: 1"=100'

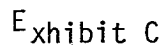


**PROVIDING SURVEYING SERVICES
 SINCE 1946
 JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117**

[illegible]

CONTOUR INTERVAL:
BOND DRAW, N.M. - 10'
BLACK RIVER VILLAGE, N.M. - 20'

U.S.G.S. TOPOGRAPHIC MAP
BOND DRAW, N.M.





Gruy Petroleum Management Co.

600 East Las Colinas Blvd. • Suite 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (469) 420-2710
Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907

A wholly-owned subsidiary of Cimarex Energy Co., a NYSE Listed Company, "XEC"

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

Bureau of Land Management
2909 West Second Street
Roswell, New Mexico 88201
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.: ^{NM} ~~LC~~-96208 – W/2 Sec 31-T24S-R27E, containing 320 acres

County: Eddy County, New Mexico

Formation (S): Morrow

Bond Coverage: Statewide 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: November 7, 2005

Application to Drill

Gruy Petroleum Management Co.
Taos Federal No. 1
Lot No. 4 Section 31
T24S - R27E 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: SHL: 210' FSL & 510' FWL
BHL: 1237' FSL & 984' FWL
- 2 Elevation above sea level: GR 3352'
- 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: 12800'
- 6 Estimated tops of geological markers:

T/Salt	200	Cisco Canyon	10,207
B/Salt	800	Strawn	10,425
Delaware	2,128	Atoka	10,613
Bone Spring	5,639	Morrow	11,222
Wolfcamp	8,712		
- 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"	48	8-R	ST&C	H-40
12 1/4"	0-2750'	9 5/8"	40	8-R	LT&C	J-55
8-3/4"	0-12800'	5 1/2"	17	8-R	LT&C	P-110

Application to Drill

Gruy Petroleum Management Co.
Taos Federal No. 1
Lot No. 4 Section 31
T24S - R27E Eddy County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 200' of 13 3/8" H-40 48# ST&C casing. Cement with 225 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 2750' of 9 5/8" J-55 40# LT&C casing or casing sufficient to reach the base of the reef complex. Cement lead with 800 sx Class POZ/C Cement + additives and tail with 200 sx Class "C" + additives, circulate cement to surface.
5 1/2"	Production	Set 12800' of 5 1/2" P-110 17# LT&C casing. Cement in two stages, first stage cement with 870 Sx. of Class POZ/C Cement + additives. Second stage cement with 1050 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

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' - 2750'	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.
2750' - 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' - 12800'	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.
Taos Federal No. 1
Lot No. 4 Section 31
T24S - R27E 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 DSTs 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.

Hydrogen Sulfide Drilling Operations Plan

- 1 All Company and Contract personnel admitted on location must be trained by a qualified H2S safety instructor to the following:
 - A. Characteristics of H2S
 - B. Physical effects and hazards
 - C. Proper use of safety equipment and life support systems.
 - D. Principle and operation of H2S detectors, warning system and briefing
 - E. Evacuation procedure, routes and first aid.
 - F. Proper use of 30 minute pressure demand air pack.
- 2 H2S Detection and Alarm Systems
 - A. H2S detectors and audio alarm system to be located at bell nipple, end of blooie line (mud pit) and on derrick floor or doghouse.
- 3 Windsock and/or wind streamers
 - A. Windsock at mudpit area should be high enough to be visible.
 - B. Windsock at briefing area should be high enough to be visible.
- 4 Condition Flags and Signs
 - A. Warning sign on access road to location.
 - B. Flags to be displayed on sign at entrance to location. Green flag, normal safe condition. Yellow flag indicates potential pressure and danger. Red flag, danger, H2S present in dangerous concentration. Only emergency personnel admitted to location.
- 5 Well control equipment
 - A. See exhibit "E"
- 6 Communication
 - A. While working under masks chalkboards will be used for communication.
 - B. Hand signals will be used where chalk board is inappropriate.
 - C. Two way radio will be used to communicate off location in case of emergency help is required. In most cases cellular telephones will be available at most drilling foreman's trailer or living quarters.
- 7 Drillstem Testing Not Anticipated

Hydrogen Sulfide Drilling Operations Plan

- 8 Drilling contractor supervisor will be required to be familiar with the effects H₂S has on tubular goods and other mechanical equipment.
- 9 If H₂S is encountered, mud system will be altered if necessary to maintain control of formation. A mud gas separator will be brought into service along with H₂S scavengers if

Surface Use Plan

Gruy Petroleum Management Co.
Taos Federal No. 1
Lot No. 4 Section 31
T24S - R27E 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
 - A. Exhibit "A" shows the proposed well site as staked.
 - B. From the intersection of Co. Rd. #720 (Black River Village Road) and Co. Rd. #742 (John C. Forehand Road), go South on Co. Rd. #742 approx. 3.9 miles to a caliche road on the right. Turn right (West) and go approx. 0.8 miles. Turn left (Southwest) and go approx 1.1 miles. Turn left (South) and go approx 0.2 miles. Turn left (Southeast) and go approx 0.4 miles, veer left (Southeast) and go approx. 0.4 miles. Turn left (North) and go approx. 0.3 miles to the NW corner of pad for the Marquardt 1 Penn Fed #2 well. Follow proposed road survey from the NWc of pad approx. 0.4 miles at this location.
- 2 PLANNED ACCESS ROADS: 2226' of access road will be constructed
- 3 LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A"
 - A. Water wells - None Know
 - 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.
Taos Federal No. 1
Lot No. 4 Section 31
T24S - R27E 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.
Taos Federal No. 1
Lot No. 4 Section 31
T24S - R27E 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

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.
Taos Federal No. 1
Lot No. 4 Section 31
T24S - R27E 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.

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 and/or its contractors/subcontractors and is in 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: November 7, 2005

TITLE: Manager, Operations Administration

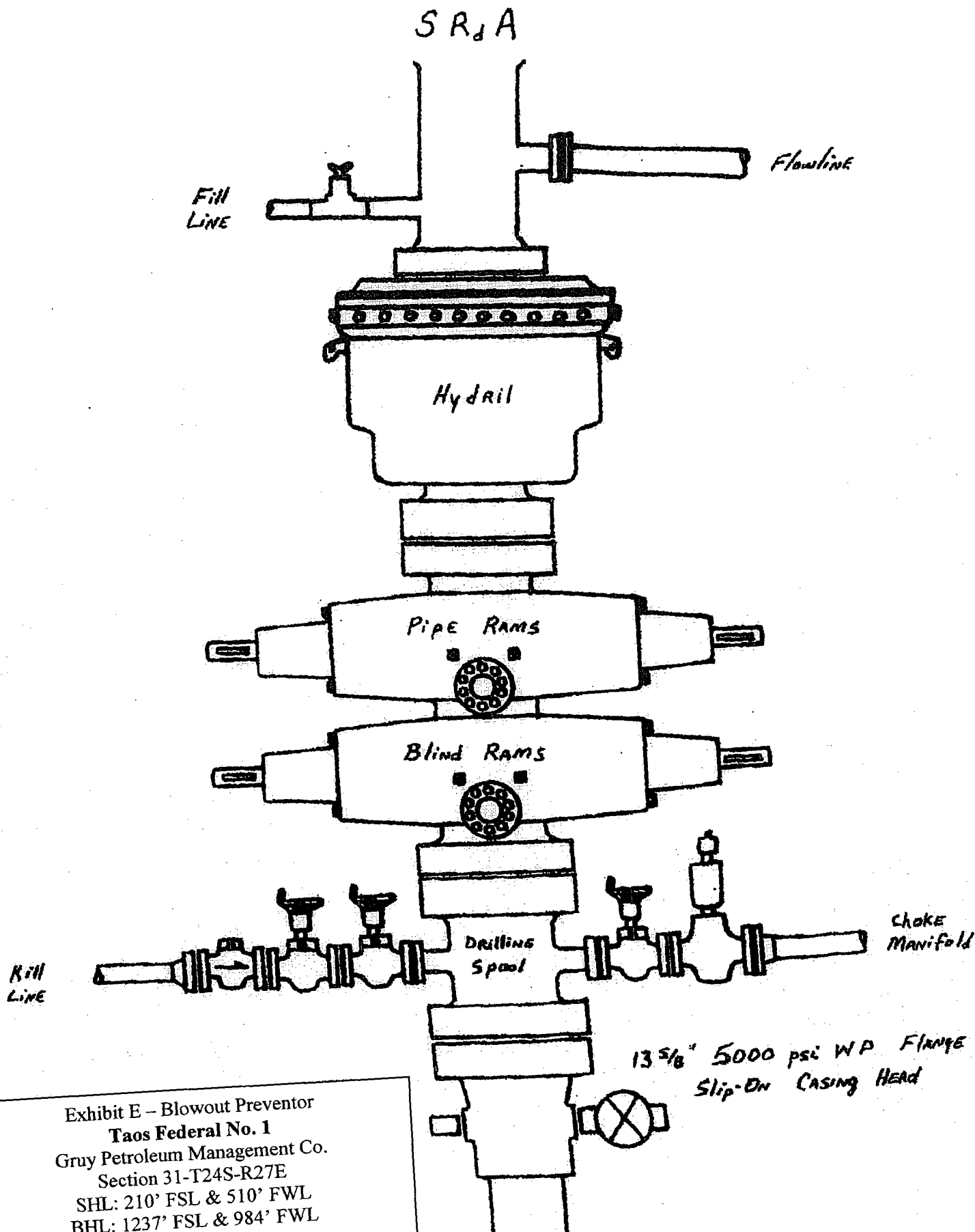


Exhibit E – Blowout Preventor
 Taos Federal No. 1
 Gruy Petroleum Management Co.
 Section 31-T24S-R27E
 SHL: 210' FSL & 510' FWL
 BHL: 1237' FSL & 984' FWL
 Eddy County, NM

DRILLING OPERATIONS
CHOKE MANIFOLD
5M SERVICE

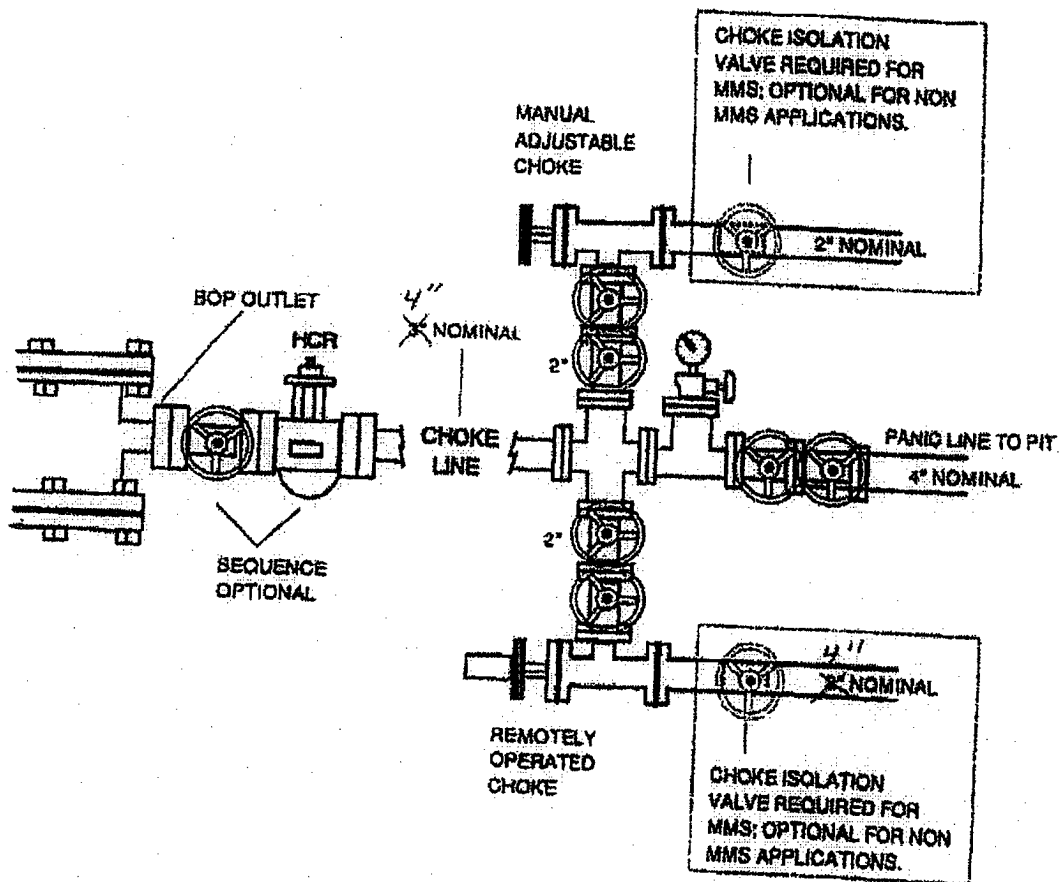


Exhibit E1 – Choke Manifold Diagram
Taos Federal No. 1
 Gruy Petroleum Management Co.
 Section 31-T24S-R27E
 SHL: 210' FSL & 510' FWL
 BHL: 1237' FSL & 984' FWL
 Eddy County, NM



Gruy Petroleum Management Co.
New Mexico
Eddy County
Sec. 31-T24S-R27E
Taos Federal #1 - Plan 110705

Revised: 7 November, 2005

Halliburton Sperry-Drilling Proposal Report

7 November, 2005

Data Source: Mr. Zeno Farris

Surface Coordinates: 424404.90 N, 530158.80 E (32° 10' 00.3664" N, 104° 14' 09.1263" W)

Grid Coordinate System: NAD27 New Mexico State Planes, Eastern Zone

Surface Coordinates relative to Center of County: 121207.86 S, 30158.80 E (Grid)

Surface Coordinates relative to SW Cor Sec 31: 210.00 N, 510.00 E (Grid)

Kelly Bushing Elevation: 3372.00ft above Mean Sea Level

Kelly Bushing Elevation: 3372.00ft above Structure

Proposal Ref: pro9474

HALLIBURTON

Sperry Drilling Services

HALLIBURTON**Sperry Drilling Services**

Gruy Petroleum Management Co.
New Mexico
Eddy County

Proposal Report for Sec. 31-T24S-R27E - Taos Federal #1 - Plan 110705**Data Source: Mr. Zeno Farris****Revised: 7 November, 2005**

Measure Depth (ft)	Incl. Angle (Deg)	Drift Direction (Deg)	True Vertical Depth	Vertical Section (ft)	Local Coordinates N-S (ft)	E-W (ft)	Dogleg Severit (°/100ft)	Lease Calls FNL-FSL (ft)	FEL-FWL (ft)	Global Coordinates Grid Y (ft)	Grid X (ft)
0.00	0.000	0.000	0.00	0.00	0.00 N	0.00 E		210.00 FSL	510.00 FWL	424404.90 N	530158.80 E
9 5/8" Casing											
2750.00	0.000	0.000	2750.00	0.00	0.00 N	0.00 E	0.00	210.00 FSL	510.00 FWL	424404.90 N	530158.80 E
Kick-Off at 4842.50ft											
4842.50	0.000	0.000	4842.50	0.00	0.00 N	0.00 E	0.00	210.00 FSL	510.00 FWL	424404.90 N	530158.80 E
4900.00	1.150	24.775	4900.00	0.58	0.52 N	0.24 E	2.00	210.52 FSL	510.24 FWL	424405.42 N	530159.04 E
5000.00	3.150	24.775	4999.92	4.33	3.93 N	1.81 E	2.00	213.93 FSL	511.81 FWL	424408.83 N	530160.61 E
5100.00	5.150	24.775	5099.65	11.56	10.50 N	4.85 E	2.00	220.50 FSL	514.85 FWL	424415.40 N	530163.65 E
5200.00	7.150	24.775	5199.07	22.28	20.23 N	9.34 E	2.00	230.23 FSL	519.34 FWL	424425.13 N	530168.14 E
End of Build at 5292.49ft											
5292.49	9.000	24.775	5290.65	35.27	32.02 N	14.78 E	2.00	242.02 FSL	524.78 FWL	424436.92 N	530173.58 E
5300.00	9.000	24.775	5298.06	36.44	33.09 N	15.27 E	0.00	243.09 FSL	525.27 FWL	424437.99 N	530174.07 E
5400.00	9.000	24.775	5396.83	52.09	47.29 N	21.83 E	0.00	257.29 FSL	531.83 FWL	424452.19 N	530180.63 E
5500.00	9.000	24.775	5495.60	67.73	61.50 N	28.38 E	0.00	271.50 FSL	538.38 FWL	424466.40 N	530187.18 E
5600.00	9.000	24.775	5594.37	83.37	75.70 N	34.94 E	0.00	285.70 FSL	544.94 FWL	424480.60 N	530193.74 E
5700.00	9.000	24.775	5693.13	99.02	89.90 N	41.49 E	0.00	299.90 FSL	551.49 FWL	424494.80 N	530200.29 E
5800.00	9.000	24.775	5791.90	114.66	104.11 N	48.05 E	0.00	314.11 FSL	558.05 FWL	424509.01 N	530206.85 E
5900.00	9.000	24.775	5890.67	130.30	118.31 N	54.60 E	0.00	328.31 FSL	564.60 FWL	424523.21 N	530213.40 E
6000.00	9.000	24.775	5989.44	145.95	132.51 N	61.16 E	0.00	342.51 FSL	571.16 FWL	424537.41 N	530219.96 E
6100.00	9.000	24.775	6088.21	161.59	146.72 N	67.72 E	0.00	356.72 FSL	577.72 FWL	424551.62 N	530226.52 E

Measure Depth (ft)	Incl. Angle (Deg)	Drift Direction (Deg)	True Vertical Depth	Vertical Section (ft)	Local Coordinates		Dogleg Severit (°/100ft)	Lease Calls		Global Coordinates	
					N-S (ft)	E-W (ft)		FNL-FSL (ft)	FEL-FWL (ft)	Grid Y (ft)	Grid X (ft)
6200.00	9.000	24.775	6186.98	177.23	160.92 N	74.27 E	0.00	370.92 FSL	584.27 FWL	424565.82 N	530233.07 E
6300.00	9.000	24.775	6285.75	192.88	175.12 N	80.83 E	0.00	385.12 FSL	590.83 FWL	424580.02 N	530239.63 E
6400.00	9.000	24.775	6384.52	208.52	189.33 N	87.38 E	0.00	399.33 FSL	597.38 FWL	424594.23 N	530246.18 E
6500.00	9.000	24.775	6483.29	224.16	203.53 N	93.94 E	0.00	413.53 FSL	603.94 FWL	424608.43 N	530252.74 E
6600.00	9.000	24.775	6582.05	239.81	217.73 N	100.49 E	0.00	427.73 FSL	610.49 FWL	424622.63 N	530259.29 E
6700.00	9.000	24.775	6680.82	255.45	231.94 N	107.05 E	0.00	441.94 FSL	617.05 FWL	424636.84 N	530265.85 E
6800.00	9.000	24.775	6779.59	271.09	246.14 N	113.60 E	0.00	456.14 FSL	623.60 FWL	424651.04 N	530272.40 E
6900.00	9.000	24.775	6878.36	286.74	260.34 N	120.16 E	0.00	470.34 FSL	630.16 FWL	424665.24 N	530278.96 E
7000.00	9.000	24.775	6977.13	302.38	274.55 N	126.71 E	0.00	484.55 FSL	636.71 FWL	424679.45 N	530285.51 E
7100.00	9.000	24.775	7075.90	318.02	288.75 N	133.27 E	0.00	498.75 FSL	643.27 FWL	424693.65 N	530292.07 E
7200.00	9.000	24.775	7174.67	333.66	302.95 N	139.82 E	0.00	512.95 FSL	649.82 FWL	424707.85 N	530298.62 E
7300.00	9.000	24.775	7273.44	349.31	317.16 N	146.38 E	0.00	527.16 FSL	656.38 FWL	424722.06 N	530305.18 E
7400.00	9.000	24.775	7372.21	364.95	331.36 N	152.94 E	0.00	541.36 FSL	662.94 FWL	424736.26 N	530311.74 E
7500.00	9.000	24.775	7470.97	380.59	345.56 N	159.49 E	0.00	555.56 FSL	669.49 FWL	424750.46 N	530318.29 E
7600.00	9.000	24.775	7569.74	396.24	359.77 N	166.05 E	0.00	569.77 FSL	676.05 FWL	424764.67 N	530324.85 E
7700.00	9.000	24.775	7668.51	411.88	373.97 N	172.60 E	0.00	583.97 FSL	682.60 FWL	424778.87 N	530331.40 E
7800.00	9.000	24.775	7767.28	427.52	388.17 N	179.16 E	0.00	598.17 FSL	689.16 FWL	424793.07 N	530337.96 E
7900.00	9.000	24.775	7866.05	443.17	402.38 N	185.71 E	0.00	612.38 FSL	695.71 FWL	424807.28 N	530344.51 E
8000.00	9.000	24.775	7964.82	458.81	416.58 N	192.27 E	0.00	626.58 FSL	702.27 FWL	424821.48 N	530351.07 E
8100.00	9.000	24.775	8063.59	474.45	430.78 N	198.82 E	0.00	640.78 FSL	708.82 FWL	424835.68 N	530357.62 E
8200.00	9.000	24.775	8162.36	490.10	444.99 N	205.38 E	0.00	654.99 FSL	715.38 FWL	424849.89 N	530364.18 E
8300.00	9.000	24.775	8261.13	505.74	459.19 N	211.93 E	0.00	669.19 FSL	721.93 FWL	424864.09 N	530370.73 E
8400.00	9.000	24.775	8359.89	521.38	473.39 N	218.49 E	0.00	683.39 FSL	728.49 FWL	424878.29 N	530377.29 E
8500.00	9.000	24.775	8458.66	537.03	487.60 N	225.05 E	0.00	697.60 FSL	735.05 FWL	424892.50 N	530383.85 E
8600.00	9.000	24.775	8557.43	552.67	501.80 N	231.60 E	0.00	711.80 FSL	741.60 FWL	424906.70 N	530390.40 E
8700.00	9.000	24.775	8656.20	568.31	516.01 N	238.16 E	0.00	726.01 FSL	748.16 FWL	424920.91 N	530396.96 E
Target - 8700' Tgt, Current Target											
8744.34	9.000	24.775	8700.00	575.25	522.30 N	241.06 E	0.00	732.30 FSL	751.06 FWL	424927.20 N	530399.86 E
8800.00	9.000	24.775	8754.97	583.96	530.21 N	244.71 E	0.00	740.21 FSL	754.71 FWL	424935.11 N	530403.51 E
8900.00	9.000	24.775	8853.74	599.60	544.41 N	251.27 E	0.00	754.41 FSL	761.27 FWL	424949.31 N	530410.07 E
9000.00	9.000	24.775	8952.51	615.24	558.62 N	257.82 E	0.00	768.62 FSL	767.82 FWL	424963.52 N	530416.62 E
9100.00	9.000	24.775	9051.28	630.89	572.82 N	264.38 E	0.00	782.82 FSL	774.38 FWL	424977.72 N	530423.18 E

Measure Depth (ft)	Incl. Angle (Deg)	Drift Direction (Deg)	True Vertical Depth	Vertical Section (ft)	Local Coordinates		Dogleg Severit (°/100ft)	Lease Calls		Global Coordinates	
					N-S (ft)	E-W (ft)		FNL-FSL (ft)	FEL-FWL (ft)	Grid Y (ft)	Grid X (ft)
9200.00	9.000	24.775	9150.05	646.53	587.02 N	270.93 E	0.00	797.02 FSL	780.93 FWL	424991.92 N	530429.73 E
9300.00	9.000	24.775	9248.81	662.17	601.23 N	277.49 E	0.00	811.23 FSL	787.49 FWL	425006.13 N	530436.29 E
9400.00	9.000	24.775	9347.58	677.82	615.43 N	284.04 E	0.00	825.43 FSL	794.04 FWL	425020.33 N	530442.84 E
9500.00	9.000	24.775	9446.35	693.46	629.63 N	290.60 E	0.00	839.63 FSL	800.60 FWL	425034.53 N	530449.40 E
9600.00	9.000	24.775	9545.12	709.10	643.84 N	297.16 E	0.00	853.84 FSL	807.16 FWL	425048.74 N	530455.96 E
9700.00	9.000	24.775	9643.89	724.75	658.04 N	303.71 E	0.00	868.04 FSL	813.71 FWL	425062.94 N	530462.51 E
9800.00	9.000	24.775	9742.66	740.39	672.24 N	310.27 E	0.00	882.24 FSL	820.27 FWL	425077.14 N	530469.07 E
9900.00	9.000	24.775	9841.43	756.03	686.45 N	316.82 E	0.00	896.45 FSL	826.82 FWL	425091.35 N	530475.62 E
10000.00	9.000	24.775	9940.20	771.67	700.65 N	323.38 E	0.00	910.65 FSL	833.38 FWL	425105.55 N	530482.18 E
10100.00	9.000	24.775	10038.97	787.32	714.85 N	329.93 E	0.00	924.85 FSL	839.93 FWL	425119.75 N	530488.73 E
10200.00	9.000	24.775	10137.73	802.96	729.06 N	336.49 E	0.00	939.06 FSL	846.49 FWL	425133.96 N	530495.29 E
10300.00	9.000	24.775	10236.50	818.60	743.26 N	343.04 E	0.00	953.26 FSL	853.04 FWL	425148.16 N	530501.84 E
10400.00	9.000	24.775	10335.27	834.25	757.46 N	349.60 E	0.00	967.46 FSL	859.60 FWL	425162.36 N	530508.40 E
10500.00	9.000	24.775	10434.04	849.89	771.67 N	356.15 E	0.00	981.67 FSL	866.15 FWL	425176.57 N	530514.95 E
10600.00	9.000	24.775	10532.81	865.53	785.87 N	362.71 E	0.00	995.87 FSL	872.71 FWL	425190.77 N	530521.51 E
10700.00	9.000	24.775	10631.58	881.18	800.07 N	369.26 E	0.00	1010.07 FSL	879.26 FWL	425204.97 N	530528.06 E
10800.00	9.000	24.775	10730.35	896.82	814.28 N	375.82 E	0.00	1024.28 FSL	885.82 FWL	425219.18 N	530534.62 E
10900.00	9.000	24.775	10829.12	912.46	828.48 N	382.38 E	0.00	1038.48 FSL	892.38 FWL	425233.38 N	530541.18 E
11000.00	9.000	24.775	10927.88	928.11	842.68 N	388.93 E	0.00	1052.68 FSL	898.93 FWL	425247.58 N	530547.73 E
11100.00	9.000	24.775	11026.65	943.75	856.89 N	395.49 E	0.00	1066.89 FSL	905.49 FWL	425261.79 N	530554.29 E
11200.00	9.000	24.775	11125.42	959.39	871.09 N	402.04 E	0.00	1081.09 FSL	912.04 FWL	425275.99 N	530560.84 E
11300.00	9.000	24.775	11224.19	975.04	885.29 N	408.60 E	0.00	1095.29 FSL	918.60 FWL	425290.19 N	530567.40 E
11400.00	9.000	24.775	11322.96	990.68	899.50 N	415.15 E	0.00	1109.50 FSL	925.15 FWL	425304.40 N	530573.96 E
11500.00	9.000	24.775	11421.73	1006.32	913.70 N	421.71 E	0.00	1123.70 FSL	931.71 FWL	425318.60 N	530580.51 E
11600.00	9.000	24.775	11520.50	1021.97	927.90 N	428.26 E	0.00	1137.90 FSL	938.26 FWL	425332.80 N	530587.06 E
11700.00	9.000	24.775	11619.27	1037.61	942.11 N	434.82 E	0.00	1152.11 FSL	944.82 FWL	425347.01 N	530593.62 E
11800.00	9.000	24.775	11718.04	1053.25	956.31 N	441.37 E	0.00	1166.31 FSL	951.37 FWL	425361.21 N	530600.17 E
11900.00	9.000	24.775	11816.80	1068.90	970.51 N	447.93 E	0.00	1180.51 FSL	957.93 FWL	425375.41 N	530606.73 E
12000.00	9.000	24.775	11915.57	1084.54	984.72 N	454.49 E	0.00	1194.72 FSL	964.49 FWL	425389.62 N	530613.29 E
12100.00	9.000	24.775	12014.34	1100.18	998.92 N	461.04 E	0.00	1208.92 FSL	971.04 FWL	425403.82 N	530619.84 E

Measure Depth (ft)	Incl. Angle (Deg)	Drift Direction (Deg)	True Vertical Depth	Vertical Section (ft)	Local Coordinates N-S (ft)	E-W (ft)	Dogleg Severit (°/100ft)	Lease Calls FNL-FSL (ft)	FEL-FWL (ft)	Global Coordinates Grid Y (ft)	Grid X (ft)
12200.00	9.000	24.775	12113.11	1115.83	1013.12 N	467.60 E	0.00	1223.12 FSL	977.60 FWL	425418.02 N	530626.40 E
12300.00	9.000	24.775	12211.88	1131.47	1027.33 N	474.15 E	0.00	1237.33 FSL	984.15 FWL	425432.23 N	530632.95 E
Target - 12300' Taos #1, Current Target											
12389.22	9.000	24.775	12300.00	1145.43	1040.00 N	480.00 E	0.00	1250.00 FSL	990.00 FWL	425444.90 N	530638.80 E
12400.00	9.000	24.775	12310.65	1147.11	1041.53 N	480.71 E	0.00	1251.53 FSL	990.71 FWL	425446.43 N	530639.51 E
12500.00	9.000	24.775	12409.42	1162.76	1055.73 N	487.26 E	0.00	1265.73 FSL	997.26 FWL	425460.63 N	530646.06 E
Total Depth at 12591.71ft, 8 3/4" Open Hole											
12591.71	9.000	24.775	12500.00	1177.10	1068.76 N	493.27 E	0.00	1278.76 FSL	1003.27 FWL	425473.66 N	530652.07 E

All data is in Feet (US) unless otherwise stated. Directions and coordinates are relative to Grid North.
Vertical depths are relative to RKB(3352'+20'KB). Northings and Eastings are relative to Wellhead.

Based upon Minimum Curvature type calculations, at a Measured Depth of 12591.71ft.,
The Bottom Hole Displacement is 1177.10ft., in the Direction of 24.775° (Grid).

HALLIBURTON**Sperry Drilling Services****Gruy Petroleum Management Co.**
New Mexico
Eddy County**Proposal Report for Sec. 31-T24S-R27E - Taos Federal #1 - Plan 110705**
Data Source: Mr. Zeno Farris
Revised: 7 November, 2005**Comments**

Measured Depth (ft)	Station Coordinates			Comment
	TVD (ft)	Northings (ft)	Eastings (ft)	
4842.50	4842.50	0.00 N	0.00 E	Kick-Off at 4842.50ft
5292.49	5290.65	32.02 N	14.78 E	End of Build at 5292.49ft
12591.71	12500.00	1068.76 N	493.27 E	Total Depth at 12591.71ft

Casing details

Measured Depth (ft)	From	Vertical Depth (ft)	Measured Depth (ft)	To	Vertical Depth (ft)	Casing Detail
<Surface>	<Surface>	<Surface>	2750.00	<Run-ID>	2750.00	9 5/8" Casing
<Surface>	<Surface>	<Surface>	<Run-ID>	<Run-ID>	<Run-ID>	8 3/4" Open Hole

HALLIBURTON**Sperry Drilling Services****Gruy Petroleum Management Co.**
New Mexico
Eddy County**Proposal Report for Sec. 31-T24S-R27E - Taos Federal #1 - Plan 110705**
Data Source: Mr. Zeno Farris
Revised: 7 November, 2005**Targets associated with this wellpath**

Target Name	Target Entry Coordinates			Target Shape	Target Type
	TVD (ft)	Northings (ft)	Eastings (ft)		
8700` Tgt	8700.00	522.30 N	241.06 E	Point	Current Target
	5328.00	424927.20 N	530399.86 E		
		32° 10' 05.5332" N	104° 14' 06.3162" W		
	Mean Sea Level/Global Coordinates: Geographical Coordinates:				
12300` Taos #1	12300.00	1040.00 N	480.00 E	Point	Current Target
	8928.00	425444.90 N	530638.80 E		
		32° 10' 10.6544" N	104° 14' 03.5308" W		
	Mean Sea Level/Global Coordinates: Geographical Coordinates:				

HALLIBURTON

Sperry Drilling Services

Gruy Petroleum Management Co.
New Mexico
Eddy County

North Reference Sheet for Sec. 31-T24S-R27E - Taos Federal #1

Coordinate System is NAD27 New Mexico State Planes, Eastern Zone, US Foot
Source: Snyder, J.P., 1987, Map Projections - A Working Manual

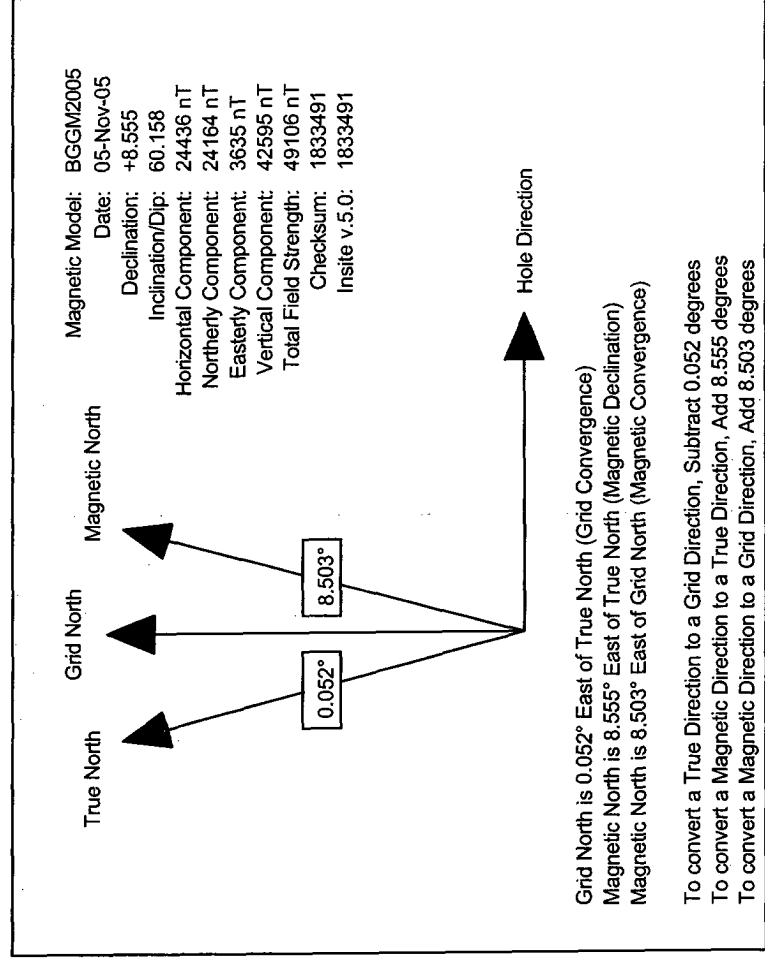
Datum is North American Datum of 1927 (US48, AK, HI, and Canada)

Spheroid is Clarke - 1866
Equatorial Radius: 6378206.400m.
Polar Radius: 6356583.800m.
Inverse Flattening: 294.978698213901

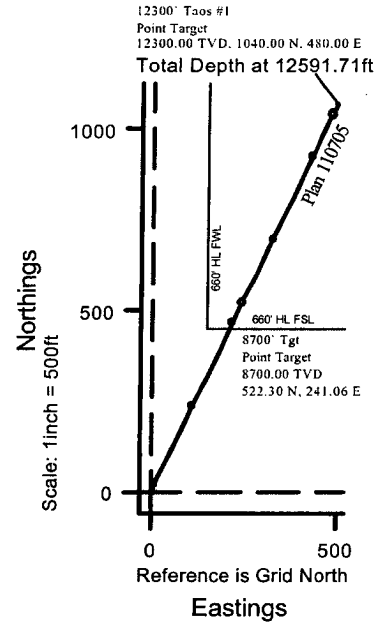
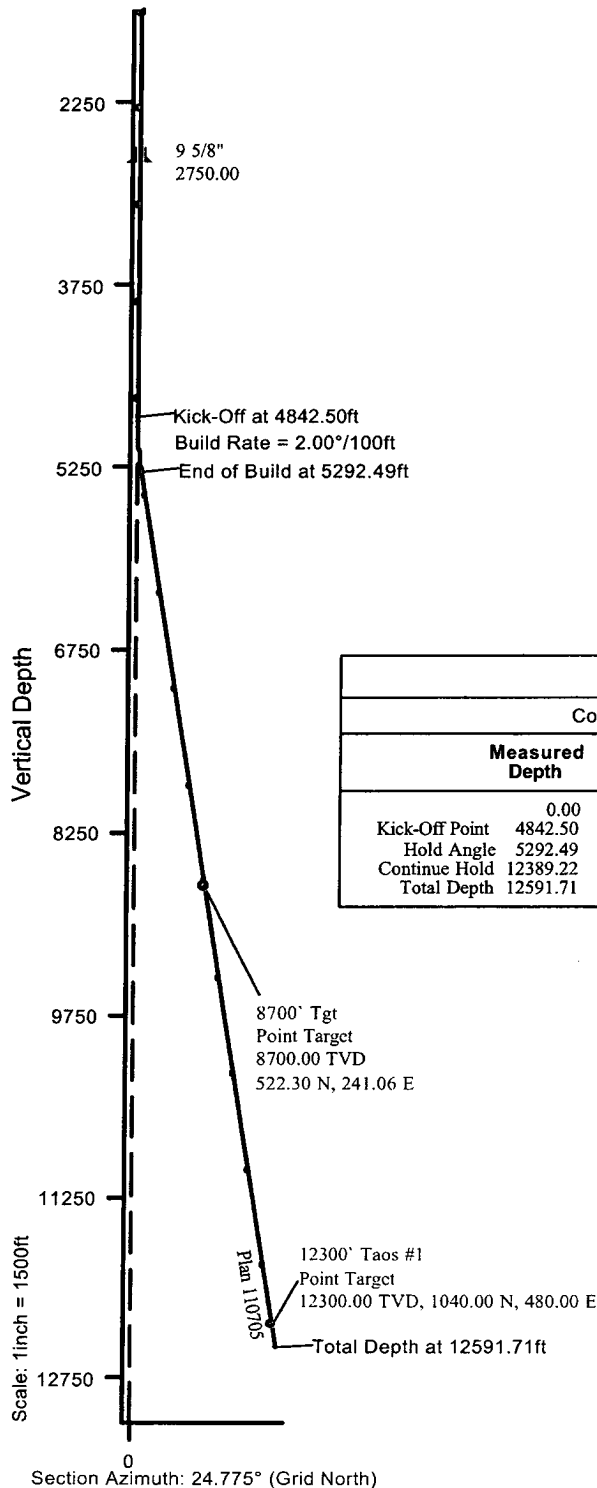
Projection method is Transverse Mercator or Gauss Kruger Projection

Central Meridian is -104.333°
Longitude Origin: 0.000°
Latitude Origin: 31.000°
False Easting: 152400.00m
False Northing: 0.00m
Scale Reduction: 0.99990909

Grid Coordinates of Well: 424404.90 N, 530158.80 E
Geographical Coordinates of Well: 32° 10' 00.3664" N, 104° 14' 09.1263" W
Surface Elevation of Well: 3372.00ft
Grid Convergence at Surface is +0.052°
Magnetic Convergence at Surface is -8.503° (5 November, 2005)



**New Mexico
Eddy County
Sec. 31-T24S-R27E
Taos Federal #1
Plan 110705**



Taos Federal #1 Surface Location

RKB Elevation: 3372.00ft above Mean Sea Level
Ref. SW Cor Sec 31: 210.00 N, 510.00 E
Ref. Global Coordinates: 424404.90 N, 530158.80 E
Ref. Geographical Coordinates: 32° 10' 00.3664" N, 104° 14' 09.1263" W

Plan 110705 Proposal Data

Coordinate System : NAD27 New Mexico State Planes, Eastern Zone

Measured Depth	Incl.	Azim.	Vertical Depth	Northings	Eastings	Vertical Section	Dogleg Rate
0.00	0.000	0.000	0.00	0.00 N	0.00 E	0.00	
Kick-Off Point 4842.50	0.000	0.000	4842.50	0.00 N	0.00 E	0.00	0.00
Hold Angle 5292.49	9.000	24.775	5290.65	32.02 N	14.78 E	35.27	2.00
Continue Hold 12389.22	9.000	24.775	12300.00	1040.00 N	480.00 E	1145.43	0.00
Total Depth 12591.71	9.000	24.775	12500.00	1068.76 N	493.27 E	1177.10	0.00

Plan 110705 Bottom Hole Location

Ref. RKB(3352'+20'KB): 12500.00ft
Ref. Structure: 9128.00ft
Ref. Wellhead: 1068.76 N, 493.27 E
Ref. SW Cor Sec 31: 1278.76 N, 1003.27 E
Ref. Global Coordinates: 425473.66 N, 530652.07 E
Ref. Geographical Coordinates: 32° 10' 10.9389" N, 104° 14' 03.3760" W



Gruy Petroleum Management Co.

600 East Las Colinas Blvd. ♦ Suite 1100 ♦ Irving, TX 75039 ♦ (972) 401-3111 ♦ Fax (469) 420-2710

Mailing Address: P.O. Box 140907 ♦ Irving, TX 75014-0907

A subsidiary of Cimarex Energy Co. • A NYSE Listed Company • "XEC"

November 8, 2005

Oil Conservation Division
District II Office
1301 W. Grand Ave.
Artesia, New Mexico 88210
Attn: Mr. Bryan Arrant

Re: Statewide Rule 118
Hydrogen Sulfide Gas Contingency Plan
Proposed Taos Federal No. 1 Well

Dear Mr. Arrant:

In accordance with NMAC 19.15.3.118 C. (1) governing the determination of the hydrogen sulfide concentration in gaseous mixtures in each of its operations, Gruy Petroleum Management Co. does not anticipate that there will be enough H₂S from the surface to the Morrow/Atoka formations to meet the OCD's minimum requirements for the submission of a contingency plan for the drilling and completion of the following test(s):

Taos Federal No. 1 – SHL: 210' FSL & 510' FWL
BHL: 1237' FSL & 984' FWL
Sec. 31-T24S-R27E

If anything further is needed regarding this issue, or if you have any questions, please feel free to contact the undersigned at 972-443-6489.

Yours truly,

Zeno Farris
Manager, Operations Administration

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Gruy Petroleum Management Co.
Well Name & No. Taos Federal #1
Surface Location: 210' FSL, 510' FWL, Section 31, T. 24 S., R. 27 E., Eddy County, New Mexico SHL
Lease: NM-96209 1237' FSL & 984' FWL, Sec. 31, T.24S., R.27E. BHL

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County in sufficient time for a representative to witness:
 - A. Well spud
 - B. Cementing casing: 13-3/8 inch 9-5/8 inch 5-1/2 inch
 - C. BOP tests
2. A Hydrogen Sulfide (H₂S) Drilling Operation Contingency Plan shall be activated prior to drilling into the **Wolfcamp** formation. A copy of the plan shall be posted at the drilling site.
3. 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.
4. 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.
5. 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 approximately 200 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 to be circulated to the surface.
3. The minimum required fill of cement behind the 5-1/2 inch production casing is to reach at least 500 feet above the top of the uppermost hydrocarbon productive interval.

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 13-3/8 inch casing shoe and shall be tested as described.

NOTE: A waiver to test the 13-3/8" casing to 1000# with the rig pumps is granted.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 5000 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.

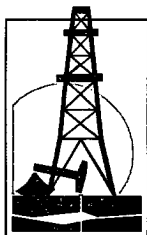
IV. DRILLING MUD:

Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the Wolfcamp formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

- Recording pit level indicator to indicate volume gains and losses.
- Mud measuring device for accurately determining the mud volumes necessary to fill the hole during trips.
- Flow-sensor on the flow-line to warn of abnormal mud returns from the well.

11/21/2005

acs



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