

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. 66-069107
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 N/A
2. Name of Operator Stephens & Johnson Operating Co.		7. Unit or CA Agreement Name and No. East Millman Pool Unit
3a. Address P.O. Box 2249 Wichita Falls TX 76307-2249		8. Lease Name and Well No. Tract 6 Well No. 8
3b. Phone No. (include area code) 940-723-2166		9. API Well No. 30-015-34890
4. Location of Well (Report location clearly and in accordance with any State requirements)* At surface 1310' ENL, 330' FEL (NE/4 NE/4, Unit Letter A) At proposed prod. zone 1310' ENL, 330' FEL (NE/4 NE/4, Unit Letter A)		10. Field and Pool, or Exploratory Millman Yates-SR-QN-GB-SA, East
14. Distance in miles and direction from nearest town or post office* 15 miles north from Carlsbad, NM		11. Sec., T., R., M., or Blk. and Survey or Area Sec. 13, T19S, R28E
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drg. unit line, if any) 330'	16. No. of Acres in lease 160	12. County or Parish Eddy
17. Spacing Unit dedicated to this well 40	13. State NM	
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 650'	19. Proposed Depth 2700'	20. BLM/BIA Bond No. on file Rotary
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3373' GR	22. Approximate date work will start* March 1, 2005	23. Estimated duration 7 days

24. Attachments

Capitan Controlled Water Bank

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

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

25. Signature William M. Kincaid	Name (Printed/Typed) William M. Kincaid	Date 11-11-2005
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Title

Petroleum Engineer

Approved by (Signautre) /s/ Tony J. Herrell	Name (Printed/Typed) /s/ Tony J. Herrell	Date MAY 19 2006
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Title

FIELD MANAGER

Office

CARLSBAD FIELD OFFICE

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Conditions of approval, if any, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

*(Instructions on page 2)

Witness Surface Casing

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

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-0719
District III
1000 Rio Brango Rd., Aztec, NM 87410
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-102
Revised February 10, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 AFI Number		2 Pool Code 46555		3 Pool Name Millman Yates-SR-QN-GB-SA, East	
4 Property Code 009799		5 Property Name EAST MILLMAN UNIT Tract 6			6 Well Number 8
7 OGRID No. 019958		8 Operator Name Stephens & Johnson Operating Co.			9 Elevation 3372.6

10 Surface Location

UL or lot no. A	Section 13	Township 19 S	Range 28 E	Lot Idn	Feet from the 1310	North/South line North	Feet from the 330	East/West line East	County Eddy
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11 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
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12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code	15 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

16										<p>17 OPERATOR CERTIFICATION</p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</i></p> <p><i>William M. Kincaid</i></p> <p>Signature William M. Kincaid</p> <p>Printed Name Petroleum Engineer</p> <p>Title September 27, 2005</p> <p>Date</p>
										<p>18 SURVEYOR CERTIFICATION</p> <p><i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i></p> <p>February 4, 2005</p> <p>Date of Survey P. P. Patton</p> <p>Signature and Seal of Professional Surveyor:</p> <p><i>P. P. Patton</i></p> <p>REGISTERED PROFESSIONAL LAND SURVEYOR</p> <p>8112</p>

DRILLING PROGRAM

Attached to Form 3160-3
Stephens & Johnson Operating Co.
East Millman Pool Unit Tract 6 Well No. 8
1310' FNL, 330' FEL
Unit Letter A, Sec. 13, T19S, R28E
Eddy Co., NM

1. Geologic Name of Surface Formation:

Permian

2. Estimated Tops of Important Geologic Markers:

Permian	Surface
Seven rivers	1214'
Queen	1739'
Grayburg	2114'
San Andres	2614'

3. Estimated Depths of Anticipated Fresh Water, Oil or Gas:

Upper Permian Sands	150'	fresh water
Seven Rivers	1214'	oil
Queen	1739'	oil
Grayburg	2114'	oil
San Andres	2614'	oil

No other formations are expected to give up oil, gas, or fresh water in measurable quantities. The surface fresh water sands will be protected by setting 8 5/8" csg at 300' and circulating cement back to surface. 5 1/2" production csg will be run to TD. All zones above TD will be protected by circulating cement back to surface.

4. Casing Program:

<u>Hole Size</u>	<u>Interval</u>	<u>OD csg</u>	<u>Weight, Grade, Jr. Cond. Type</u>
12 1/4"	0-300'	8 5/8"	24#, J-55, ST&C, new R-3
7 7/8"	300-2700'	5 1/2"	15.50#, J-55 LT&C, New Rge 3

WITNESS

EAST MILLMAN POOL UNIT TRACT 6
WELL NO. 8
DRILLING PROGRAM
PAGE 2

Cement Program:

8 5/8" surface
casing: Cemented to surface with 225 sx Class "C"

5 1/2" production
casing: Cemented to surface with 500 sx Lite and
300 sx Premium Plus 50/50 Poz.

5. Minimum Specifications for Pressure Control:

The blowout preventer equipment (BOP) shown in Exhibit #1 will consist of a double ram-type (3000 psi WP) preventer equipped with blind rams on top and 4 1/2" drill pipe rams on bottom. BOP will be nipped up on 8 5/8" surface csg and used continuously until TD is reached. BOP and accessory equipment will be tested to 3000 psi before drilling out of surface casing. Pipe rams will be operationally checked each 24 hour period. Blind rams will be operationally checked on each trip out of the hole. These checks will be noted on the daily tour sheets. A 2" kill line and 3" choke line will be included in the drilling spool located below the ram-type BOP. Other accessories to the BOP equipment will include a kelly cock and floor safety valve (inside BOP) and choke lines and choke manifold with 3000 psi WP rating.

6. Types and Characteristics of the Proposed Mud System:

The well will be drilled to TD with a brine water mud system. The applicable depths and properties of this system are as follows:

<u>Depth</u>	<u>Type</u>	<u>Weight (ppg)</u>	<u>Viscosity (sec)</u>	<u>Waterloss (cc)</u>
0-300'	Fresh Water (spud)	8.4-9.4	32-34	N.C.
300-2700'	Brine Water	9.8-10.1	28-30	N.C.

EAST MILLMAN POOL UNIT TRACT 6
WELL NO. 8
DRILLING PROGRAM
PAGE 3

Sufficient mud materials to maintain mud properties and meet minimum lost circulation and weight increase requirements will be kept at the well site at all times. Drill out from under surface pipe with saturated brine circulating the reserve pit for solids control. Use brine additions for volume and dilution to control solids, weight and to minimize dissolution of salt sections. Add caustic soda to control pH at 10.0-11.0. At total depth of 2700' sweep the hole with 60 bbls of pre-mix mud and then spot 70 bbls of viscous pill of pre-mix mud with 42 viscosity, 10.0 ppg, and 10-12 cc filtrate on bottom for open hole logs and casing operations.

7. Auxiliary Well Control and Monitoring Equipment:

- (A) A kelly cock will be kept in the drill string at all times.
- (B) A full opening drill pipe stabbing valve (inside BOP) with proper drill pipe connections will be on the rig floor at all times.
- (C) A mud logging unit complete with H₂S detector will be continuously monitoring drilling penetrations rate and hydrocarbon shows from 300' to TD.

8. Logging, Testing and Coring Program:

- (A) No drillstem testing is anticipated.
- (B) The electric logging program will consist of GR-Dual Laterolog-MSFL and GR-Compensated Neutron-Density from TD to surface.
- (C) No conventional coring is anticipated.
- (D) Further testing procedures will be determined after the 5 1/2" production casing has been cemented at TD based on drill shows and log evaluation.

EAST MILLMAN POOL UNIT TRACT 6
WELL NO. 8
DRILLING PROGRAM
PAGE 4

9. Abnormal Conditions, Pressures, Temperatures & Potential Hazards:

No abnormal pressures or temperatures are anticipated. The estimated bottom hole temperature (BHT) at TD is 90° and estimated maximum bottom hole pressure (BHP) is 1060 psig. No hydrogen sulfide or other hazardous gases or fluids have been encountered, reported or are known to exist at this depth in this area. No major lost circulation zones have been reported in offsetting wells.

10. Anticipated Starting Date and Duration of Operations:

Road and location work will not begin until approval has been received from the BLM. The anticipated spud date is March 1, 2006. Once commenced, the drilling operation should be finished in approximately 6 days. If the well is productive, an additional 12 days will be required for completion and testing before a decision is made to install permanent facilities.

SURFACE USE AND OPERATING PLAN

Attached to Form 3160-3
Stephens & Johnson Operating Co.
East Millman Unit Tract 6 Well No. 8
1310' FNL & 330' FEL
NE/4 NE/4, Sec. 13, T19S, R28E
Eddy County, New Mexico

1. Existing Road:

- A. The well site and elevation plat for the proposed well is shown in Exhibit #2. It was staked by P. R. Patton & Associates, Roswell, NM.
- B. All roads to the location are shown in Exhibit #3. The existing roads are illustrated in red and are adequate for travel during drilling and production operations. Upgrading of the road prior to drilling will be done where necessary as determined during the onsite inspection.
- C. Directions to location: Go east on Hwy 82 from Artesia 12 miles to road 206. Go south 6 miles on road 206 to road 235. Go east 6 1/2 miles on road 235. Location is 200' north of road 235.
- D. Routine grading and maintenance of existing roads will be conducted as necessary to maintain their condition as long as any operations continue on this lease.

2. Proposed Access Road:

Exhibit #3A and #6 show the new access road to be constructed. The road will be constructed as follows:

- A. The maximum width of the running surface will be 15'. Water will be diverted where necessary to avoid ponding, prevent erosion, maintain good drainage, and to be consistent with local drainage patterns. BLM may specify any additions or changes during the onsite inspection.
- B. The average grade will be less than 1%.
- C. No turnouts are planned.

EAST MILLMAN POOL UNIT TRACT 6 WELL NO. 8
SURFACE USE AND OPERATING PLAN
PAGE 2

- D. No culverts, cattleguard, gates, low-water crossings or fence cuts are necessary.
- E. Surfacing material will consist of native caliche. Caliche will be obtained from the nearest BLM approved caliche pit. Any additional materials that are required will be purchased from the dirt contractor.

3. Location of Existing Wells:

Exhibit #4 shows all existing wells within a one-mile radius of this well. A list of these wells is shown on the attachment to Exhibit #4.

4. Location of Existing and/or Proposed Facilities:

- A. Stephens & Johnson Operating Co. operates one production facility on this lease. The East Millman Pool Unit, Millman Yates-SR-QN-GB-SA, East Field - Tank Battery - Unit Letter C, Sec 13, T19S, R28E. This facility is shown in Exhibit 5.
- B. If the well is productive, contemplated facilities will be as follows:
 - (1) A 3" poly pipe flowline will be laid on the surface to the existing East Millman Pool Unit tank battery.
 - (2) Electrical power will be installed from the nearest power line by Central Valley Electric Cooperative, Inc.
- C. If the well is productive, rehabilitation plans are as follows:
 - (1) The reserve pit will be back-filled after the contents of the pit are dry (within 120 days after the well is completed).

EAST MILLMAN POOL UNIT TRACT 6 WELL NO. 8
SURFACE USE AND OPERATING PLAN
PAGE 3

- (2) Caliche from unused portions of the drill pad will be removed. Topsoil removed from the drill site will be used to recontour the pit area and any unused portions of the drill pad to the original natural level, as nearly as possible, and reseeded as per BLM specifications.

5. Location and Type of Water Supply:

The well will be drilled with a combination brine and fresh water mud system as outlined in the drilling program. The water will be obtained from commercial water stations in the area and hauled to the location by transport truck over the existing and proposed access roads shown in Exhibit #3.

6. Source of Construction materials:

All caliche required for construction of the drill pad and the proposed new access road will be obtained from a BLM - approved caliche pit. All roads and pads will be constructed of 6" of rolled and compacted caliche.

7. Methods of Handling Water Disposal:

- A. Drill cuttings not retained for evaluation purposes will be disposed into the reserve pit.
- B. Drilling fluids will be contained in earthen pits. The reserve pit will contain any excess drilling fluid or flow from the well during drilling, cementing, and completion operations. The reserve pit will be an earthen pit, approximately 55' x 80' x 6' deep and fenced on three sides prior to drilling. It will be fenced on the fourth side immediately following rig removal. The pits will be plastic-lined (12 mil thickness) to minimize loss of drilling fluids and saturation of the ground with brine water.

EAST MILLMAN POOL UNIT TRACT 6 WELL NO. 8
SURFACE USE AND OPERATING PLAN
PAGE 4

- C. Water produced from the well during completion may be disposed into the reserve pit (depending on the rates). After the well is permanently placed on production, produced water will be collected at the existing East Millman Pool Unit production facility and re-injected into the Queen-Grayburg waterflood program currently being conducted by Stephens & Johnson Operating Co.
- D. A portable chemical toilet will be provided on the location for human waste during the drilling and completion operations.
- E. Garbage and trash produced during drilling or completion operations will be contained in a trash bin and hauled off for proper disposal. All waste material will be contained to prevent scattering by the wind. All water and fluids will be disposed of into the reserve pit. Salts and other chemicals produced during drilling or testing will be disposed into the reserve pit. No toxic waste or hazardous chemicals will be produced by this operation.
- F. After the rig is moved out and the well is either completed or abandoned, all waste materials will be cleaned-up within 30 days. No adverse materials will be left on the location. The reserve pit will be completely fenced and netted and kept closed until it has dried. When the reserve pit is dry enough to breakout and fill the unused portion of the well site will be leveled and reseeded as per BLM specifications. Only that part of the pad required for production facilities will be kept in use. In the event of a dry hole, only a dry hole marker will remain.

8. Ancillary Facilities:

No airstrip, campsite, or other facilities will be built as a result of the operations on this well.

EAST MILLMAN POOL UNIT TRACT 6 WELL NO. 8
SURFACE USE AND OPERATING PLAN
PAGE 5

9. Well Site Layout:

- A. The drill pad layout is shown in Exhibit #6. Dimensions of the pad and pits and location of major rig components are shown. Top soil, if available, will be stockpiled per BLM specifications as determined at the on-site inspection. Because the pad is almost level no major cuts will be required.
- B. Exhibit #6 shows the planned orientation for the rig and associated drilling equipment, reserve pit, trash trailer, pipe racks, turn-around and parking areas, and access road. No permanent living facilities are planned but a temporary foreman/toolpusher's trailer will be on location during the drilling operations.
- C. The reserve pit will be lined with a high-quality plastic sheeting (12 mil thickness).

10. Plans for Restorations of the Surface:

- A. Upon completion of the proposed operations, if the well is to be abandoned, the caliche will be removed from the location and road and returned to the pit from which it was taken. The pit area, after allowing to dry, will be broken out and leveled. The original top soil will be returned to the entire location which will be leveled and contoured to as nearly the original topography as possible.
- B. The disturbed area will be revegetated by reseeding during the proper growing season with a seed mixture of native grasses as recommended by the BLM.
- C. Three sides of the reserve pit will be fenced prior to and during drilling operations. At the time that the rig is removed, the reserve pit will be fenced on the rig (fourth) side and netted to prevent livestock or wildlife from being entrapped. The fencing and netting will remain in place until the pit area is cleaned-up and leveled. No oil will be left on the surface of the fluid in the pit. The entire reserve pit will be netted until the fluid has completely evaporated.

EAST MILLMAN POOL UNIT TRACT 6 WELL NO. 8
SURFACE USE AND OPERATING PLAN
PAGE 6

- D. Upon completion of the proposed operations, if the well is completed, the reserve pit area will be treated as outlined above within the same prescribed time. The caliche from any area of the original drillsite not needed for production operations or facilities will be removed. Any additional caliche required for facilities will be obtained from a BLM approved caliche pit. Top soil removed from the drill site will be used to recontour the pit area and any unused portions of the drill pad to the original natural level and reseeded as per BLM specifications:

11. Surface Ownership:

The wellsite is located on State of New Mexico Surface. The surface is leased to Pardue Ltd., Co. 126 N. Canyon, Carlsbad, NM 88220 (505) 887-9525.

12. Other Information:

- A. The area around the well site is grassland and the top soil is sandy. The vegetation is native scrub grasses with abundant oakbrush, sagebrush, yucca, and prickly pear.
- B. A Cultural Resources Examination has been requested and will be forwarded to your office in the near future.

13. Lessee's and Operator's Representative:

The Stephens & Johnson Operating Co. representative responsible for assuring compliance with the surface use plan is as follows:

William M. Kincaid, Petroleum Engineer
Stephens & Johnson Operating Co.
811 Sixth Street, Suite 300
Wichita Falls, Texas 76301
Phone: (940) 723-2166 - Office
(940) 696-3651 - Home
(940) 704-0063 - Cell


EAST MILLMAN POOL UNIT TRACT 6 WELL NO. 8
SURFACE USE AND OPERATING PLAN
PAGE 7

Certification:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drillsite 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 the work associated with the operations proposed herein will be performed by Stephens & Johnson Operating Co. and its contractors and subcontractors in conformity with this plan and the terms and conditions which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

Date: November 11, 2005

Signed:


William M. Kincaid
Petroleum Engineer

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

Attached to Form 3160-3
Stephens & Johnson Operating Co.
P. O. Box 2249
Wichita Falls, Texas 76307

East Millman Pool Unit Tract 6 Well No. 8
1310' FNL, 330' FEL
Unit Letter A, Sec. 13, T19S, R28E
Eddy County, New Mexico

The undersigned accepts all applicable terms, conditions stipulations, and restrictions concerning operations conducted on the leased land or portion thereof, as described below:

Lease No.: NM - 069107

Legal Description: NE/4, Section 13, T19S, R28E
containing 160 acres more or less in
Eddy County, New Mexico

Formation: From surface to 100' below the
Queen-Grayburg formation.

Bond Coverage - Federal

Statewide Bond - \$25,000.00

CNA Bond No. 141902627

BLM Bond No. NM2238

Principal: Stephens & Johnson Operating Co.

Surety: CNA Surety.

4004 Belt Line Rd., Ste. 260

Addison, Texas 75001-4381

(972) 404-5602

Bond Coverage - State

Damage Bond - Right of Way Easement

Bond No. 103141930

Statewide Bond - \$500.00

Principal: Stephens & Johnson Operating Co.

Surety: The Travelers Indemnity Company
c/o Barnard Insurance Agency LLP
P O Box 270

Wichita Falls, Texas 76307-0270

(940) 723-0977

Surface Improvement Damage Bond Multi-Lease - \$20,000.00

Bond No. 142224900

Principal: Stephens & Johnson Operating Co.

Surety: CNA Surety
4004 Belt Line Rd., Ste. 260
Addison, Texas 75001-4381
(972) 404-5602

Plugging Bond

Statewide Bond - \$50,000.00

Bond No. 141902613

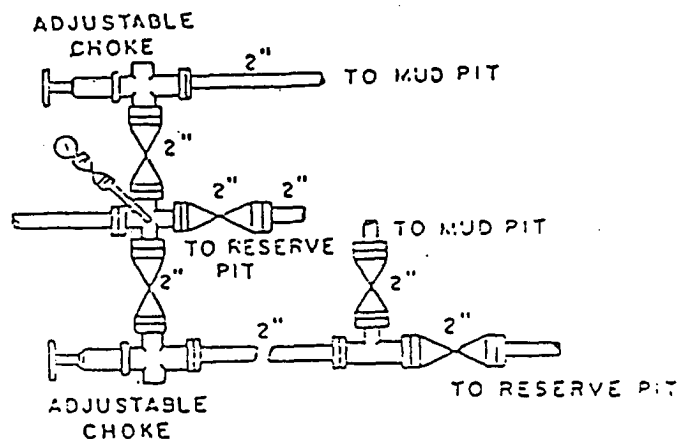
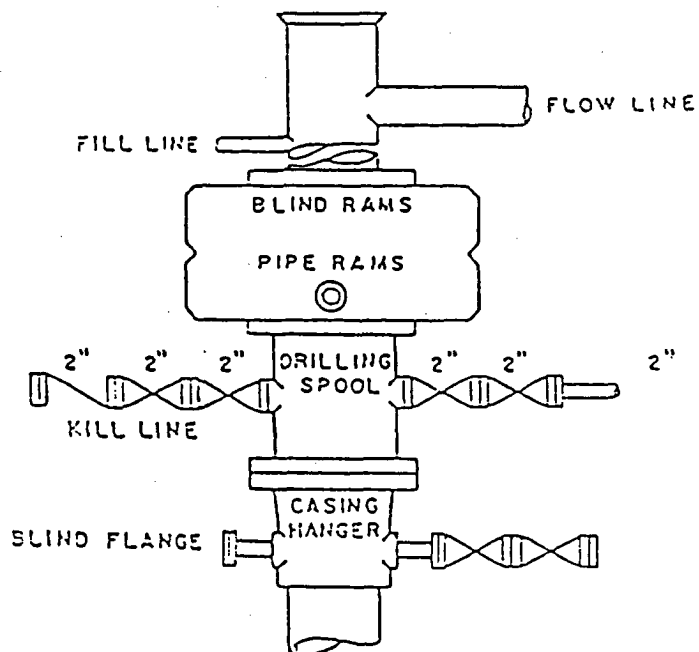
Principal: Stephens & Johnson Operating Co.

Surety: CNA Surety
4004 Belt Line Rd., Ste. 260
Addison, Texas 75001-4381
(972) 404-5602

Authorized Signature:



William M. Kincaid
Petroleum Engineer
November 11, 2005

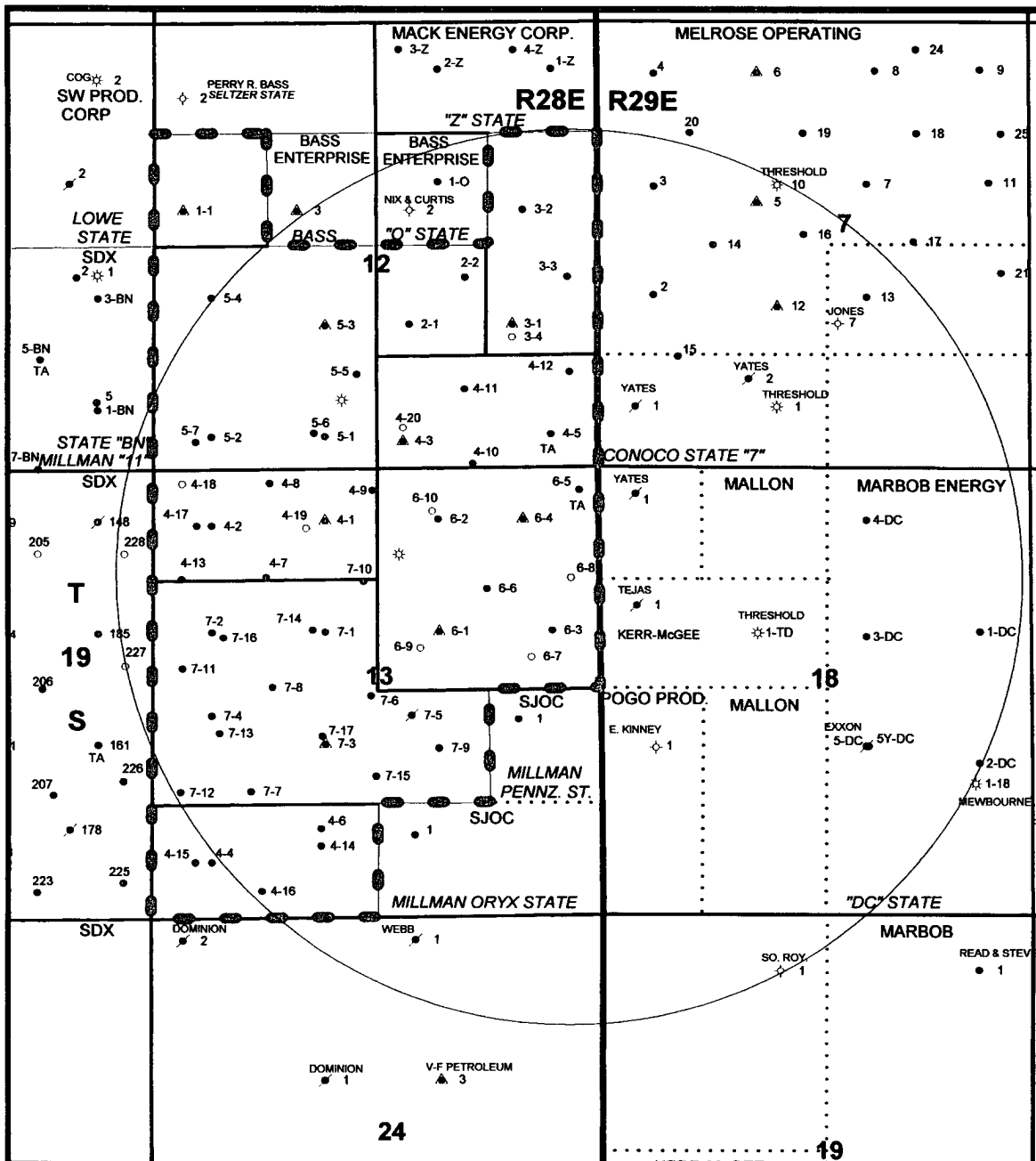


BOP DIAGRAM
3000# WORKING PRESSURE
RAMS OPERATED DAILY

EAST MILLMAN POOL UNIT NO. 6-8
EDDY COUNTY, NEW MEXICO

Attachment to Exhibit #1
NOTES REGARDING THE BLOWOUT PREVENTERS
EAST MILLMAN UNIT TRACT 6 WELL NO. 8
EDDY COUNTY, NEW MEXICO

1. Drilling nipple to be so constructed that it can be removed without use of a welder through rotary table opening, with minimum I.D. equal to preventer bore.
2. Wear ring to be properly installed in head.
3. Blow out preventer and all fittings must be in good condition, 3000 psi W.P. minimum.
4. All fittings to be flanged.
5. Safety valve must be available on rig floor at all times with proper connections, valve to be full bore 3000 psi W.P. minimum.
6. All choke and fill lines to be securely anchored, especially ends of choke lines.
7. Equipment through which bit must pass shall be at least as large as the diameter of the casing being drilled through.
8. Kelly cock on kelly.
9. Extension wrenches and hand wheels to be properly installed.
10. Blow out preventer control to be located as close to driller's position as feasible.
11. Blow out preventer closing equipment to meet all API specifications.



-LEGEND-

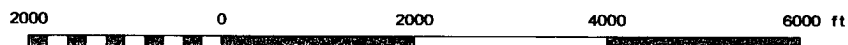
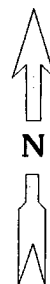
- D&A
- GAS
- INJ
- LOC
- OIL
- P&A

STEPHENS & JOHNSON OPERATING CO.

**EAST MILLMAN POOL UNIT
TRACT 6 WELL NO. 8
EDDY COUNTY, NEW MEXICO**

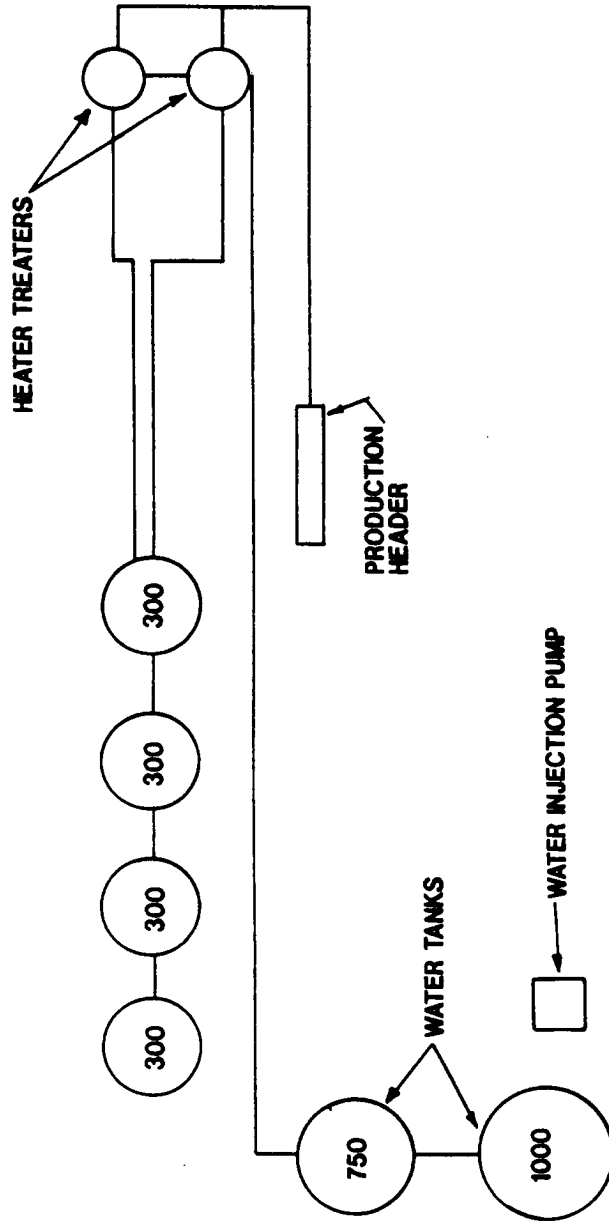
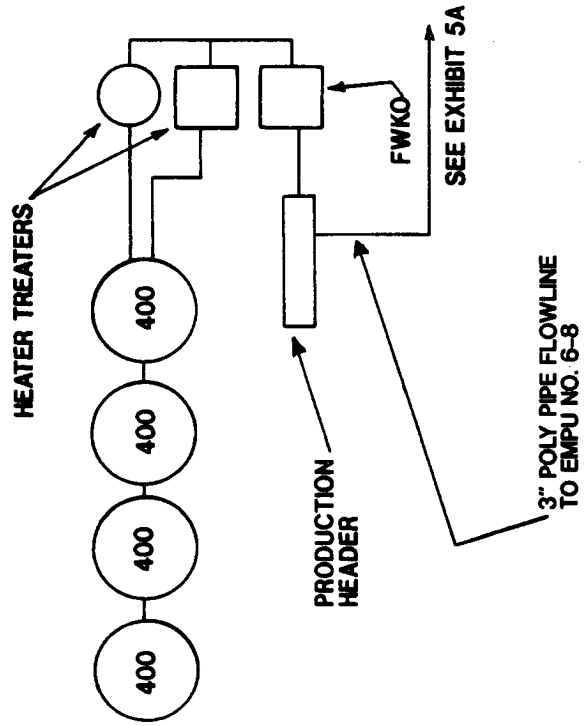
ONE MILE RADIUS MAP

EXHIBIT NO. 4

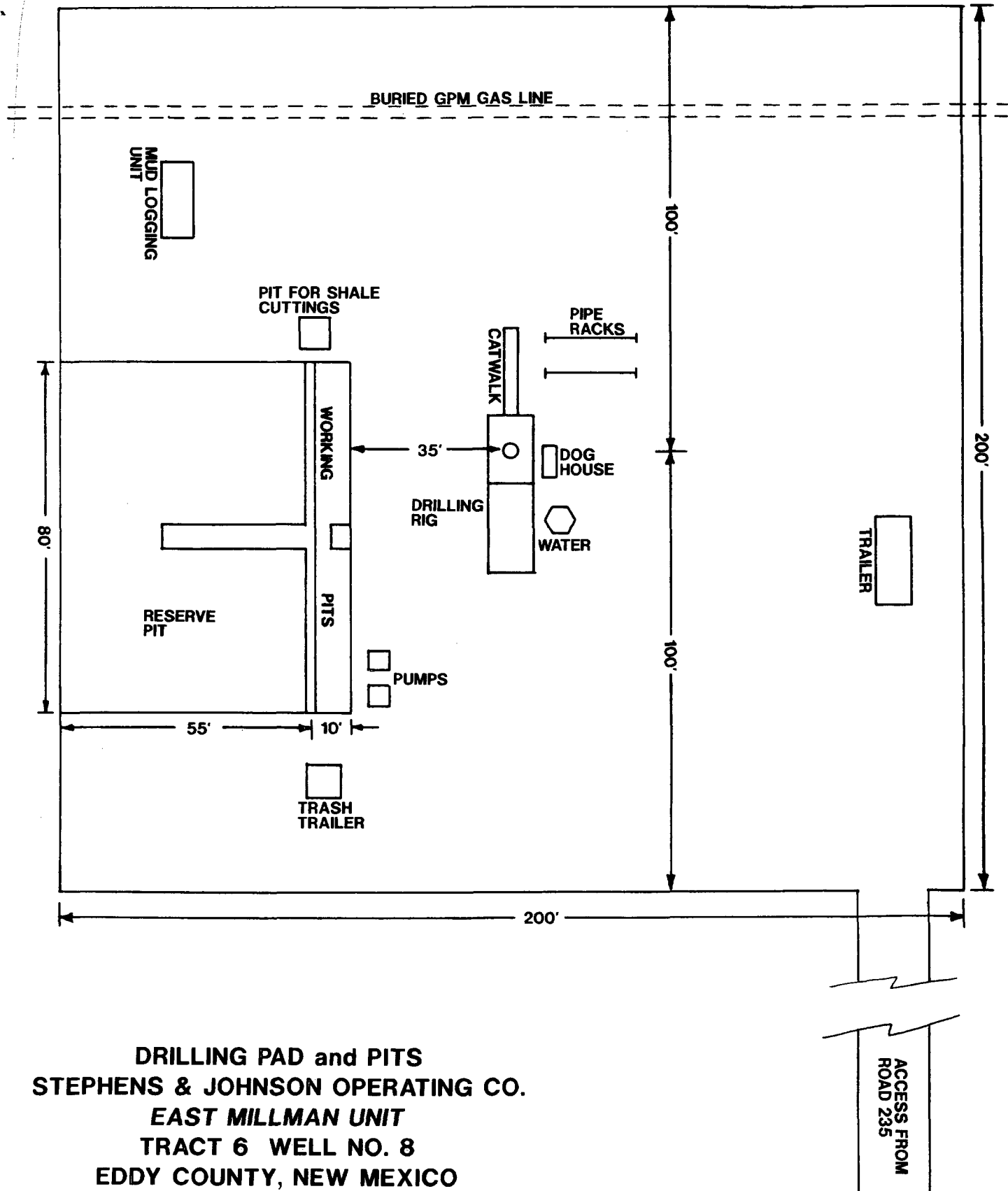


STEPHENS & JOHNSON OPERATING CO.
 EAST MILLMAN POOL UNIT
 EDDY COUNTY, NEW MEXICO

PRODUCTION FACILITY LAYOUT
 EXHIBIT NO. 5



SCALE 1" = 20'



**DRILLING PAD and PITS
STEPHENS & JOHNSON OPERATING CO.
EAST MILLMAN UNIT
TRACT 6 WELL NO. 8
EDDY COUNTY, NEW MEXICO**

**- SCALE -
1" = 30'**

EXHIBIT NO. 6

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Stephens & Johnson Operating Co.
Well Name & No. East Millman Pool Unit Tract 6 Well No. 8 (6-8)
Location: 1310' FNL, 330' FEL, Section 13, T. 19 S., R. 28 E., Eddy County, New Mexico
Lease: LC-069107

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: 8-5/8 inch 5-1/2 inch
- C. BOP tests

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15-day time frame.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

II. CASING:

1. The 8-5/8 inch surface casing shall be set at approximately 300 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 5-1/2 inch production casing is to be circulated to the surface.

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 8-5/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 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.