

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

IV-Dist. 2

Avenue

38210

5262728293031

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

Form 3160-3
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

| | | | |
|---|--|---|--|
| 1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER | | 5. Lease Serial No. NM 100542 | |
| 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. Indian, Allottee or Tribe Name | |
| 2. Name of Operator JALAPENO CORPATION 26307 | | 7. Unit or CA Agreement, Name and No. | |
| 3a. Address P.O. BOX 1608, ALB., NM 87103 | | 8. Lease Name and Well No. PAISANO FEDERAL #1 35903 | |
| 3b. Phone No. (include area code) 505-242-2050 | | 9. API Well No. 30-005-63840 | |
| 4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 330' FSL & 330' FEL At proposed prod. zone WAP | | 10. Field and Pool, or Exploratory Wolf Lake, San Andres, South | |
| 11. Sec., T. R. M. or Blk. and Survey or Area S.12, T. 9-S, R. 27-E | | 12. County or Parish CHAVES | |
| 13. State NM | | 14. Distance in miles and direction from nearest town or post office* APPR. 24 MILES NE OF ROSWELL, NM | |
| 15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 330ft | | 16. No. of acres in lease 1760 | |
| 17. Spacing Unit dedicated to this well 40 | | 18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 610ft | |
| 19. Proposed Depth 2270ft | | 20. BLM/BIA Bond No. on file B 002462 | |
| 21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3879 | | 22. Approximate date work will start* | |
| 23. Estimated duration 120 DAYS | | 24. Attachments | |

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

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

| | | |
|---|---|--------------------|
| 25. Signature Jalapeno Corporation by Harvey Yates | Name (Printed/Typed) by HARVEY E. YATES, JR. | Date 06/05/2006 |
|---|---|--------------------|

Title

| | | |
|---|---|---------------------|
| Approved by (Signature) (ORIG SCD) JOHN S. SIMITZ | Name (Printed/Typed) (ORIG SCD) JOHN S. SIMITZ | Date JUL 27 2006 |
| Title Assistant Field Manager, Lands And Minerals | Office ROSWELL 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.

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)

DECLARED WATER BASIN

CEMENT BEHIND THE 85"
CASING MUST BE CIRCULATED
WITNESS

CEMENT TO COVER ALL
OIL, GAS AND WATER
BEARING ZONES, EXAMPLE:
GLORIETA FORMATION

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED

State of New Mexico

DISTRICT I

1625 N. FRENCH DR., HOBBS, NM 88240

Energy, Minerals and Natural Resources Department

Form C-102

DISTRICT II

1301 W. GRAND AVENUE, ARTESIA, NM 88210

OIL CONSERVATION DIVISION

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

Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

| | | | |
|-----------------------|---------------------------------------|--------------------|--|
| API Number 30-005- | | Pool Code 65075 | Pool Name Unles Wolf Lake San Andres, South |
| Property Code 1 | Property Name PAISANO FEDERAL | | Well Number 1 |
| OGRID No. 26307 | Operator Name JALAPENO CORPORATION | | Elevation 3879' |

Surface Location

| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| P | 12 | 9-S | 27-E | | 330 | SOUTH | 330 | EAST | CHAVES |

Bottom Hole Location If Different From Surface

| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|-----------------------|-----------------|--------------------|-----------|---------|---------------|------------------|---------------|----------------|--------|
| | | | | | | | | | |
| Dedicated Acres 40 | Joint or Infill | Consolidation Code | Order No. | | | | | | |

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

| | |
|---|---|
| <p>GEODETTIC COORDINATES NAD 27 NME</p> <p>Y=924415.7 N X=559352.4 E</p> <p>LAT.=33°32'27.75" N LONG.=104°08'18.75" W</p> <p>3882.4' 3882.8'</p> <p>600'</p> <p>3877.2' 3877.4'</p> <p>SEE DETAIL</p> <p>330'</p> | <p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p>Jalapeno Corporation</p> <p><i>Harvey E. Yates, Jr.</i> 2/6/3/06</p> <p>Signature Date</p> <p>Harvey E. Yates, Jr.</p> <p>Printed Name</p> |
| | <p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>FEBRUARY 10, 2006</p> <p>Date Surveyed DSR</p> <p>Signature & Seal of Professional Surveyor</p> <p><i>GARY EIDSON</i> 2/20/06</p> <p>06-11-0276</p> <p>Certificate No. GARY EIDSON 12841</p> |
| | |
| | |

Jalapeño Corporation
DRILLING AND OPERATIONS PROGRAM

PAISANO FEDERAL #1
330' FSL & 330' FEL
SECTION 12, T. 9-S, R. 27 -E
CHAVES, COUNTY, NEW MEXICO

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Jalapeño Corporation submits the following ten items of pertinent information in accordance with U.S. Minerals Management Service requirements.

1. **GEOLOGICAL NAME OF THE SURFACE FORMATION:**

Quaternary fill

2. **ESTIMATED TOPS OF GEOLOGIC MARKERS:**

| | |
|------------|-------|
| Yates | 420' |
| San Andres | 1574' |
| Slaughter | 2191' |

3. **ESTIMATED DEPTH AT WHICH WATER, OIL OR GAS ARE EXPECTED:**

| | |
|-----------|----------------|
| Water | 385' to 395' |
| Oil & Gas | 2191' to 2270' |

4. **PROPOSED CASING & CEMENT PROGRAMS:**

This well will be drilled using a Cable Tool Rig. Both surface and production casing will be set using the Cable Tool Rig. (See information related to production casing and it's cementing below).

| Hole Size | Interval | <u>Casing Program</u> | | |
|-----------|----------|-----------------------|-------|-------|
| | | OD Casing | Wt. | Grade |
| 12 1/4 | 0-500 | 8 5/8" | 32# | J-55 |
| 7 7/8 | 0-TD | 5 1/2" | 15.5# | J-55 |

Cement Program

| | |
|------------------------|--|
| 8 5/8" Surface Casing: | Cement w/ 250sx Class C. Circulate to surface. |
| 5 1/2" Surface Casing: | Cement w/ 300sx Class C. Circulate to 475 (Tie in w/ surface casing) |

5. **MINIMUM SPECIFICATIONS FOR PRESSURE CONTROL:**

See Exhibit #1. Pressure control equipment: Henderliter Control Head 1500 psi

Jalapeño Corporation
DRILLING AND OPERATIONS PROGRAM

PAISANO FEDERAL #1
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CHAVES, COUNTY, NEW MEXICO

6. TYPES AND CHARACTERISTICS OF THE PROPOSED MUD SYSTEM:

We will be drilling with a Cable Tool Rig. During Cable Tool Drilling, an estimated 10 sacks of fresh water mud will be used to suspend cuttings for bailing.

Fresh water for drilling and completion will be hauled to location over road shown from a private commercial source.

7. AUXILIARY FACILITIES:

None Required.

8. TESTING, LOGGING AND CORING PROGRAM:

The electric logging program will consist of Gamma Ray, CNL Densilog, and Dual Laterolog. Gamma Ray will be run from TD to the surface casing. Other logs will be run from TD to the top of the fluid in the hole.

Sidewall cores may also be taken.

No DST's will be run.

9. ABNORMAL CONDITIONS, PRESSURES, TEMPERATURES AND POTENTIAL HAZARDS:

No abnormal pressures or temperatures are anticipated.

10. ANTICIPATED STARTING DATE:

The Anticipated starting date is **August 15, 2006**. Because rotary rigs are difficult to hire, we intend to drill this well using our cable tool rig and a contract cable tool drilling crew – JO Hammond.

Jalapeño Corporation
MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Paisano Federal #1
330' FSL & 330' FEL
Section 12, T. 9-S, R. 27 -E
Chaves, County, New Mexico

This plan is submitted with the Application for Permit to drill the above-described well. The purpose of the Plan is to describe the location of the proposed well, the proposed construction activities and operation plan, the magnitude of necessary surface disturbance involved, and the procedures to be followed in rehabilitating the surface after completion of the operation so that a complete appraisal can be made of the environmental effects associated with the operation.

1. EXISTING ROADS:

- A. Both Exhibit #2 and #3 are maps which show the location of proposed well.
- B. Directions: From the intersection of St. HWY. 380 and Ponderosa Rd., go north on Ponderosa Rd. for approximately 11 miles. Turn right on an El Paso Pipeline Road and go southeast approximately 4.6 miles. Turn right at the Louise Yates State #5 location which is near the "White Tank" and go southwest approximately 1.1 miles. Turn left at the dry hole marker (Aciete Negra #4) and go east approximately 600 feet. There the road passes through the south part of the Paisano location.

2. PLANNED ACCESS ROAD

- A. Surfacing Material: Caliche will be obtained and hauled from a caliche pit in the SE/3 SE/3 of Section 3 T.-9S, R.-28E (See Exhibit #4). (Only as and where necessary.)
- B. Maximum Grade: 1 percent.
- C. Turnouts: None will be built.
- D. Culverts: None
- E. Drainage Design: None
- F. Cuts & Fills: None
- G. Gates and Cattle Guards: There are two existing cattle guards on the way to the proposed location after turning on to the El Paso Pipeline Road. If the well is successfully completed as a producer, the well pad will be fenced and a cattle guard will be installed at the road entrance to the well pad and at its east exit.
- H. Right of Way: No additional off-lease right-of-way will be necessary.

Jalapeño Corporation
MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Paisano Federal #1
330' FSL & 330' FEL
Section 12, T. 9-S, R. 27 -E
Chaves, County, New Mexico

3. LOCATION OF EXISTING WELLS

There are eight existing wells within a half (1/2) mile of the proposed site:
The following operated by Jalapeno Corporation

1. Duncan Federal #2 (producing)
2. Duncan Federal #3 (producing)
3. Duncan Federal #5 (producing)
4. Duncan Federal #10 (Is cased. Completion in Process)
5. Emmons State #1 (producing)
6. Louise Yates State #1 (plugged)
7. Louise Yates State #3 (Is cased. Completion in Process)
8. Scrounger State #1 (producing)

The following operated by Cibola Energy Corporation

9. Aciete Negra #4 (plugged)
10. Duncan Federal #4Y (plugged)

The following operated by Yates Petroleum

11. Wolf AHF State #1 (plugged)
12. Lobo AXU Federal #1Q (Completion in Process)

- B. If the well is a producer, the tank battery and flow line will be located on the well pad and no additional surface damage will be necessary.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. The facility would be located on the well pad.

5. METHODS OF HANDLING WATER DISPOSAL:

- A. Drill cuttings will be disposed of in the earthen pit, constructed and lined to comply with new OCD rules.
- B. Water produced while drilling will be disposed of in the earthen pit.
- C. Current laws and regulation pertaining to the disposal of human waste will be complied with.
- D. Trash, waste paper, garbage, and junk will be hauled away from location. During drilling all waste material will be contained to prevent scattering by the wind.

Jalapeño Corporation
MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Paisano Federal #1
330' FSL & 330' FEL
Section 12, T. 9-S, R. 27 -E
Chaves, County, New Mexico

6. WELLSITE LAYOUT

- A. Exhibit #5 shows relative locations and dimensions of the well pad for Cable tool rig.
- B. Only minor leveling of the well site will be required as os shown on Exhibit #4.
- C. Caliche will be obtained at a pit Jalapeno leases from the State of New Mexico in SE/3 SE/3 of Sectl 3 T.-9S, R.-28E.

7. PLANS FOR RESTORATION

- A. After completion of drilling and/or completion of operations, all equipment and other material not required for operations will be removed. Pits will be removed and the location cleaned of all trash and junk. Surface reclamation will be done in accordance with BLM recommendation.

8. SURFACE OWNERSHIP:
BLM

9. OTHER INFORMATION

- A. Topography: The land surface is level except for some sand dunes.
- B. Soil: Soil in this case is a sandy, calcareous lime.
- C. Flora and Fauna: Vegetative cover consists of mesquite and oak brush and some grass. Wildlife in the general area is that typical of semi-arid desert land and includes coyotes, rabbits, rodents, reptiles, dove and quail.
- D. Ponds & Streams: There are no ponds or streams within a two mile radius of the well site. However, there are 2 earthen livestock watering tanks which are dry most of the year. These are approximately one mile distant from the location.
- E. Residences and other Structures: There are no occupied dwellings within a mile of the proposed site.
- F. Archaeological, Historical and Other Cultural Sites:
See Exhibit #6. Note, this report was performed by Don Clifton for the adjacent caliche pit and also covered the proposed well site and surrounding acreage.
- G. Land Use: Grazing and hunting in Season.

Jalapeno Corporation
MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Paisano Federal #1
330' FSL & 330' FEL
Section 12, T. 9-S, R. 27 -E
Chaves, County, New Mexico

OPERATOR'S REPRESENTATIVE

Representative responsible for assuring compliance with the approved surface use plan is:

Harvey E. Yates, Jr.
P.O. Box 1668
Albuquerque, NM 87103

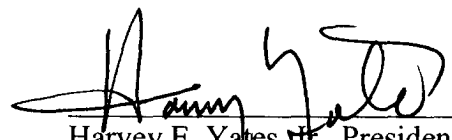
Office Phone: (505) 242-2050 Albuquerque

Cell Phone: (505) 840-9408

Home Phone: (505) 585-2056 Tularosa

OPERATING 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 presently 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 Jalapeno Corporation and its contractors and sub-contractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of no. 18 U.S.C. #1001 for filing of false statements.



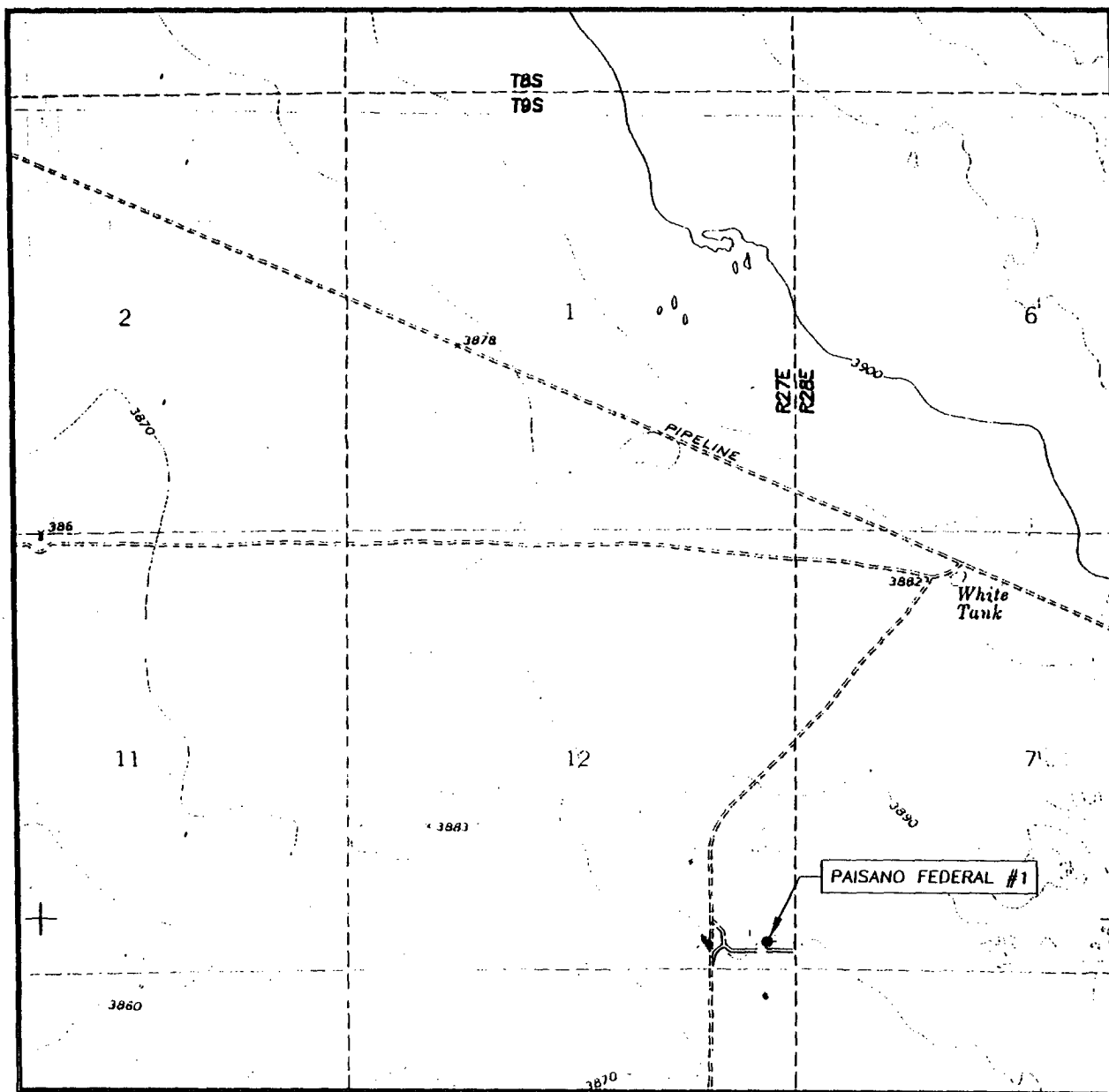
Harvey E. Yates, Jr., President
Jalapeno Corporation

6/5/06

Date

EXHIBIT #2

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
CAMPBELL, N.M. - 10'

SEC. 12 TWP. 9-S RGE. 27-E

SURVEY N.M.P.M.

COUNTY CHAVES STATE NEW MEXICO

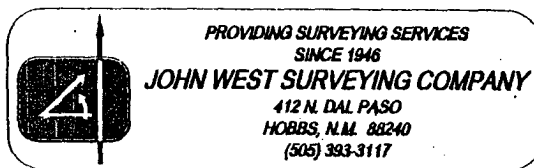
DESCRIPTION 330' FSL & 330' FEL

ELEVATION 3879'

OPERATOR JALAPENO CORPORATION

LEASE PAISANO FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
CAMPBELL, N.M.



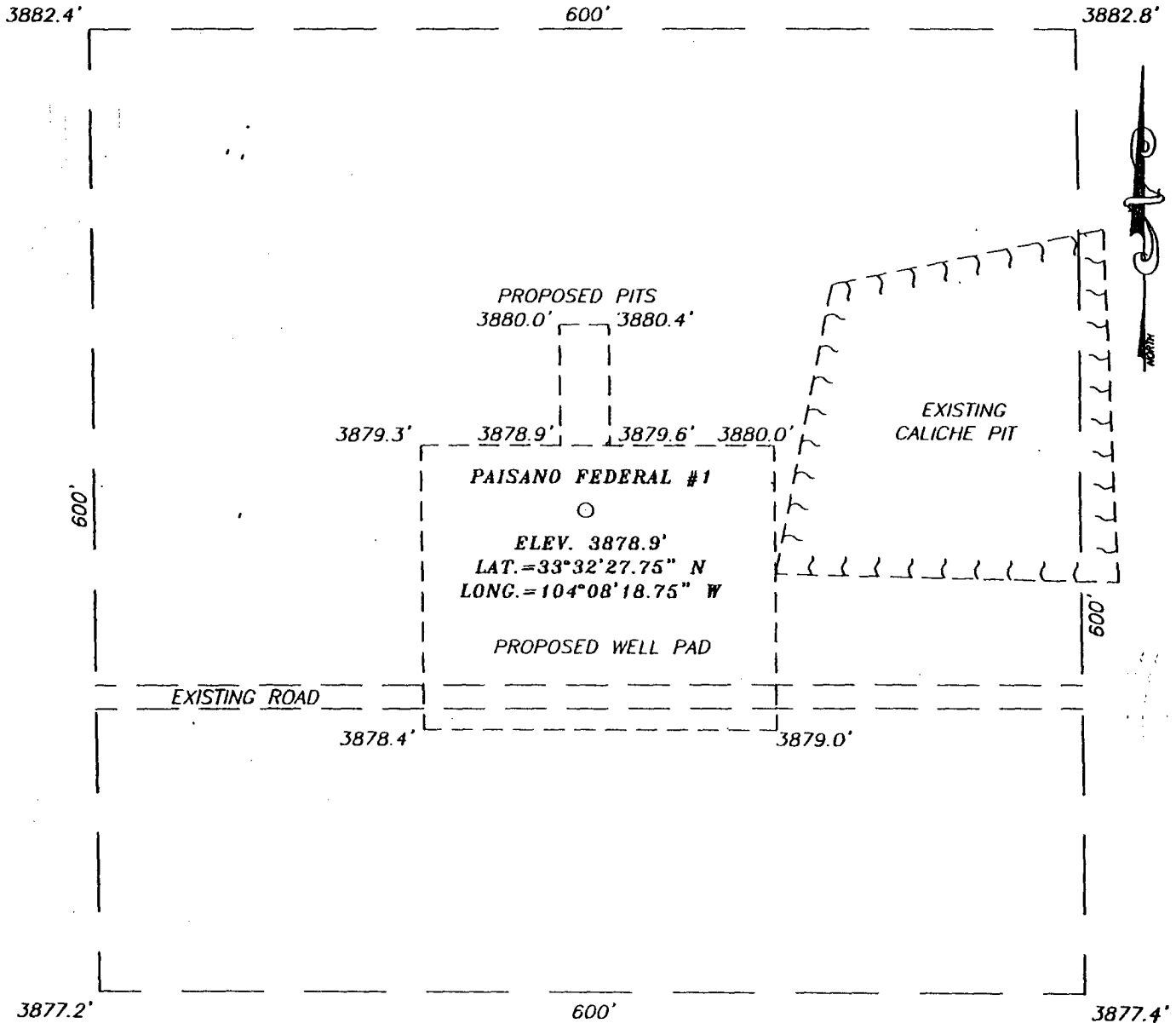
PROVIDING SURVEYING SERVICES
SINCE 1946

JOHN WEST SURVEYING COMPANY

412 N. DAL PASO
HOBBS, N.M. 88240
(505) 393-3117

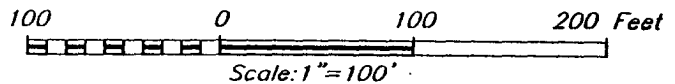
EXHIBIT #4

SECTION 12, TOWNSHIP 9 SOUTH, RANGE 27 EAST, N.M.P.M.,
CHAVES COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF ST. HWY. 380 AND PONDEROSA RD., GO NORTH ON PONDEROSA RD. APPROX. 11 MILES. TURN RIGHT AT AN EL PASO PIPELINE ROAD AND GO SOUTHEAST APPROX. 4.6 MILES. TURN RIGHT ON EXISTING ROAD AND GO SOUTHWEST APPROX. 1.1 MILES. TURN LEFT ON EXISTING ROAD AND GO EAST APPROX. 600 FEET. THIS LOCATION IS APPROX. 113' NORTH.



JALAPENO CORPORATION

PAISANO FEDERAL #1 WELL
LOCATED 330 FEET FROM THE SOUTH LINE
AND 330 FEET FROM THE EAST LINE OF SECTION 12,
TOWNSHIP 9 SOUTH, RANGE 27 EAST, N.M.P.M.,
CHAVES COUNTY, NEW MEXICO.

| | |
|-------------------------|---------------------|
| Survey Date: 2/10/06 | Sheet 1 of 1 Sheets |
| W.O. Number: 06.11.0276 | Dr By: D.S.R. |
| Date: 02/15/06 | Rev 1: N/A |
| Disk: CD#1 | 06110276 |
| | Scale: 1" = 100' |

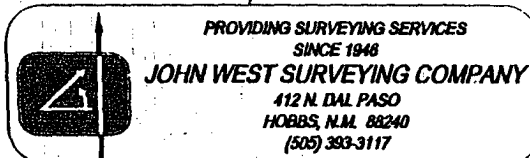


EXHIBIT A

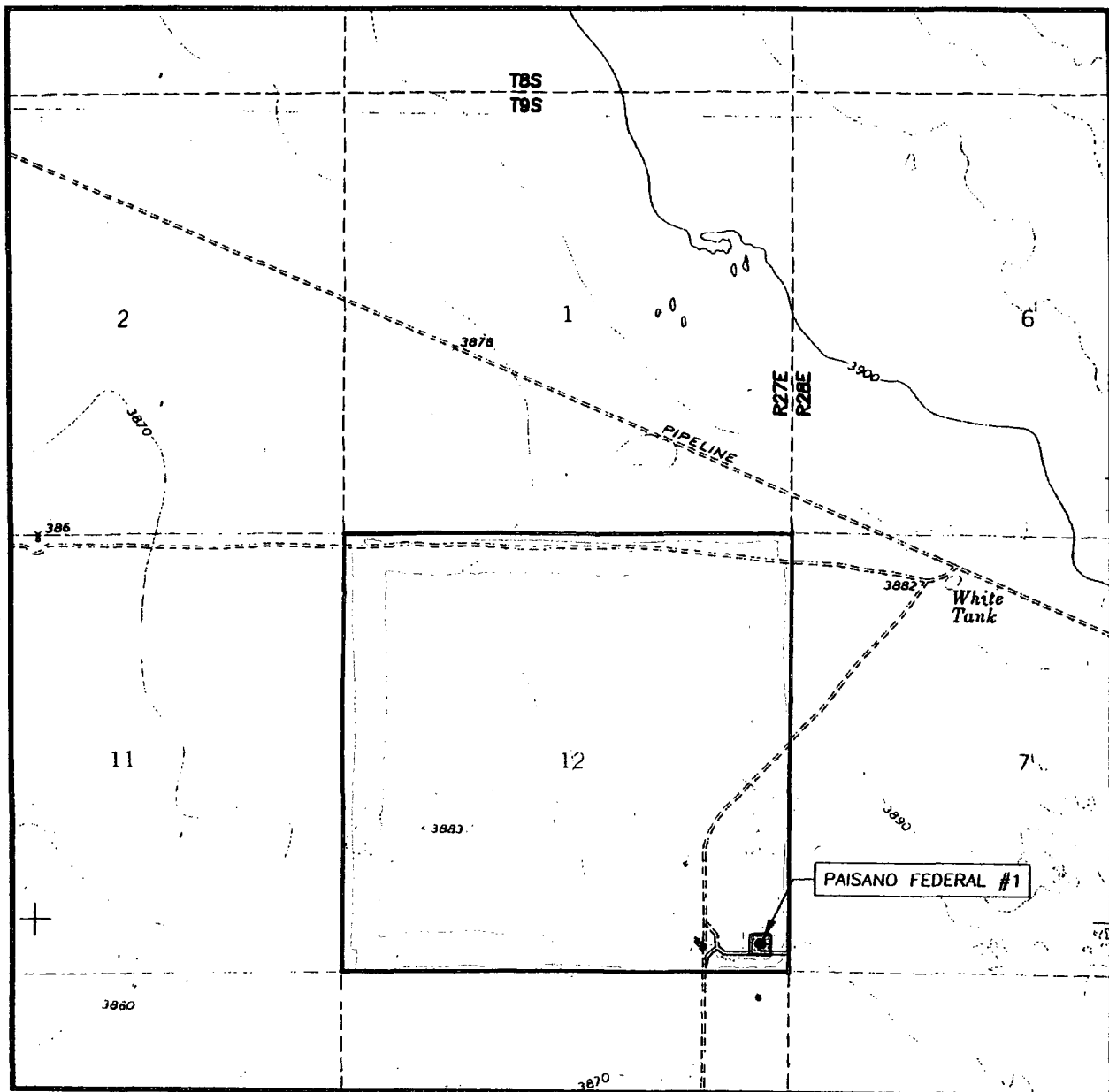
OPERATORS NAME: **Jalapeno Corporation** LEASE NO.: **NM-100542**

WELL NAME & NO: Paisano Federal #1

QUARTER/QUARTER & FOOTAGE: SE¼SE¼ - 330' FSL & 330' FEL

LOCATION: Section 12, T. 9 S., R. 27 E., NMPM

COUNTY: Chaves County, New Mexico





United States Department of the Interior
BUREAU OF LAND MANAGEMENT
Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201

EXHIBIT B

WELL DRILLING REQUIREMENTS

1 of 5 pages

OPERATORS NAME: Jalapeno Corporation LEASE NO.: NM-100542
WELL NAME & NO: Paisano Federal #1
QUARTER/QUARTER & FOOTAGE: SE $\frac{1}{4}$ SE $\frac{1}{4}$ - 330' SL & 330' FEL
LOCATION: Section 12, T. 9 S., R. 27 E., NMPM
COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

- A. The operator has the right of administrative review of these requirements pursuant to 43 CFR 3165.1(a).
- B. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Well Drilling Requirements.

II. WELL PAD CONSTRUCTION REQUIREMENTS:

- A. The BLM shall administer compliance and monitor construction of the access road and well pad. Notify Richard G. Hill at least 3 working days (72 Hours) prior to commencing construction of the access road and/or well pad. Roswell Field Office number (505) 627-0247.
- B. Prior to commencing construction of the access road, well pad, or other associated developments, the holder shall provide the dirt contractor with a copy of the approved APD signature page, a copy of the location map (EXHIBIT A), a copy of pages 1 & 2 from the Well Drilling Requirements (EXHIBIT B), and a copy of the Permanent Resource Road Requirements (EXHIBIT D).
- C. The holder shall stockpile the topsoil from the surface of the well pad. The topsoil on the Paisano Federal #1 well pad is approximate 6 inches in depth. Approximately 800 cubic yards of topsoil shall be stockpiled on the Southwest corner of the well pad, opposite the reserve pit.

D. Reserve Pit Requirements:

1. The reserve pit shall be constructed 30' X 70' on the **North** side of the well pad.
2. The reserve pit shall be constructed to a minimum depth of four (4) feet below ground level. The reserve pit shall be constructed, so that the cuttings in the reserve pit can be buried a minimum depth of three (3) feet below ground level. See **Exhibit E – Surface Reclamation/Restoration Requirements**.
3. A synthetic or fabricated liner 12 mil in thickness shall be used to line the reserve pit. The liner shall meet ASTM standards that are designed to be resistant to the reserve pit contents.

WELL DRILLING REQUIREMENTS

2 of 5 pages

4. The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.
5. The reserve pit shall be constructed so as not to leak, break, or allow discharge of drilling muds. Under no circumstances will the reserve pit be cut to drain drilling muds on the well location.
6. The reserve pit shall not be located in any natural drainage.
7. The reserve pit shall be equipped to deter entry by birds, bats, other wildlife, and livestock, if the reserve pit contains any oil and/or toxic fluids.
8. Drilling muds shall be properly disposed of before the reserve pit is reclaimed. Drilling muds can be allowed to evaporate in the reserve pit or be removed and transported to an authorized disposal site. The reserve pit shall be backfilled when dry.
9. Dumping of junk or trash into the reserve pit is not allowed. Junk or trash shall be removed from within the reserve pit before the reserve pit is reclaimed. **Junk or trash shall not be buried in the reserve pit.**

E. Federal Mineral Materials Pit Requirements:

1. Caliche, gravel, or other related materials from new or existing pits on Federal mineral estate shall not be taken without prior approval from the authorized officer. Contact Jerry Dutchover at (505) 627 -0236.
2. Payment for any Federal mineral materials that will be used to surface the access road and the well pad is required prior to removal of the mineral materials.
3. Mineral Materials extracted during construction of the reserve pit may be used for development of the pad and access road as needed, for the Paisano Federal #1 oil well only. Removal of any additional material on location must be purchased from BLM prior to removal of any material.
 - a. An optional mineral material pit may be constructed within the archaeologically cleared area. The mineral material removed in the process can be used for pad and access road construction. However, a mineral material sales contract must be purchased from the BLM prior to removal of any material.

F. Well Pad Surfacing Requirement:

The well pad shall be surfaced with 6 inches of compacted caliche, gravel, or other approved surfacing material. The well pad shall be surfaced prior to drilling operations. See **Permanent Resource Road Requirements - EXHIBIT D - requirement #4, for road surfacing.**

G. Cave Requirements:

1. If, during any construction activities any sinkholes or cave openings are discovered, all construction activities shall immediately cease. Contact Larry Bray at (505) 627-0250.
2. The BLM Authorized Officer will, within 24 hours of notification in "A" above, conduct an on-the-ground field inspection for karst. At the field inspection the authorized field inspector will authorize or suggest mitigating measures to lessen the damage to the karst environment. A verbal order to proceed or stop the operation will be issued at that time.

III. WELL SUBSURFACE REQUIREMENTS:

A. GENERAL DRILLING REQUIREMENTS:

1. The Bureau of Land Management (BLM) Roswell Field Office is to be notified at (505) 627-0272 in sufficient time for a representative to witness:

a. Spudding b. Cementing casing: 8-5/8 inch 5-1/2 inch

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. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.

B. CASING:

1. 8-5/8 inch surface casing should be set at approximately 500 feet, below usable water and circulate cement to the surface. If cement does not circulate to the surface, the BLM Roswell Field 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. Minimum required fill of cement behind the 5-1/2 inch production casing is sufficient to tie back 500 feet above the uppermost perforation in the pay zone.

C. PRESSURE CONTROL:

1. Before drilling below the 8-5/8 inch surface casing, the blowout preventer assembly shall consist of a minimum of One Henderliter Control Head.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 1500 psi.

3. The BOPE shall be installed before drilling below the 8-5/8 inch surface casing and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

a. The results of the test will be reported to the BLM Roswell Field Office at 2909 West Second Street, Roswell, New Mexico 88201.

b. 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.

c. Testing must be done in a safe workman like manner. Hard line connections shall be required.