ATS-07-50

Form 3160-3
(September 2001)

OCD-ARTESIA

DEC 2006
RECEIVED
OCD-ARTESIA

FORM APPROVED
OMB No. 1004-0136
Expires January 31, 2004

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.
NM--27801

6. If Indian, Allottee or Tribe Name

1a. Type of Work: ☑ DRILL ☐ REENTER

7. If Unit or CA Agreement, Name and No.

1b. Type of Well: ☐ Oil Well ☑ Gas Well ☐ Other ☐ Single Zone ☐ Multiple Zone

8. Lease Name and Well No.
Sharps 3 Federal Com #1 36198

2. Name of Operator
Mewbourne Oil Company - 14744

9. API Well No.
30-015-35274

3a. Address	3b. Phone No. *(include area code)*	10. Field and Pool, or Exploratory
PO Box 5270 Hobbs, NM 88240	505-393-5905	Burton Flat East Morrow

4. Location of Well *(Report location clearly and in accordance with any State requirements. *)*

At surface 1980' FSL & 720' FWL Unit L

At proposed prod. zone Same

CAPITAN CONTROLLED WATER BASIN

11. Sec., T., R., M., or Blk. and Survey or Area
Sec 3-T20S-R29E

14. Distance in miles and direction from nearest town or post office*	12. County or Parish	13. State
5 1/2 miles SW of Carlsbad	Eddy	NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 720'	16. No. of Acres in lease	17. Spacing Unit dedicated to this well
	320	320
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 1900'	19. Proposed Depth	20. BLM/BIA Bond No. on file
	11900'	NM1693, Nationwide
21. Elevations (Show whether DF, KDB, RT, GL, etc.)	22. Approximate date work will start*	23. Estimated duration
3318' GL	ASAP	45

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	Name *(Printed/Typed)*	Date
Kristi Green	Kristi Green	10/18/06

Title
Hobbs Regulatory

Approved by *(Signature)*	Name *(Printed/Typed)*	Date
/s/ Don Peterson		DEC -8 2006
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 reverse)*

SEE ATTACHED FOR
CONDITIONS OF APPROVAL

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

United States Department of the Interior
Bureau of Land Management
Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201-1287

Statement Accepting Responsibility for Operations

Operator Name: Mewbourne Oil Company
Street or Box: P.O. Box 5270
City, State: Hobbs, New Mexico
Zip Code: 88241

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

Lease Number: Lease Number #NM-27801

Legal Description of Land: Unit L of Section 3, T-20S, R-29E Eddy County, New Mexico. Location @ 1980' FSL & 720' FWL.

Formation (if applicable):

Bond Coverage: $150,000

BLM Bond File: NM1693, Nationwide

Authorized Signature: Kristi Green for NM Young

Name: NM (Micky) Young
Title: District Manager
Date: October 18, 2006

DISTRICT I
1625 N. French Dr., Hobbs, 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 October 12, 2005

Submit to Appropriate District Office
State Lease – 4 Copies
Fee Lease – 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
	73320	EAST BURTON FLAT MORROW

Property Code	Property Name	Well Number
	SHARP "3" FEDERAL COM	1

OGRID No.	Operator Name	Elevation
14744	MEWBOURNE OIL COMPANY	3318'

Surface Location

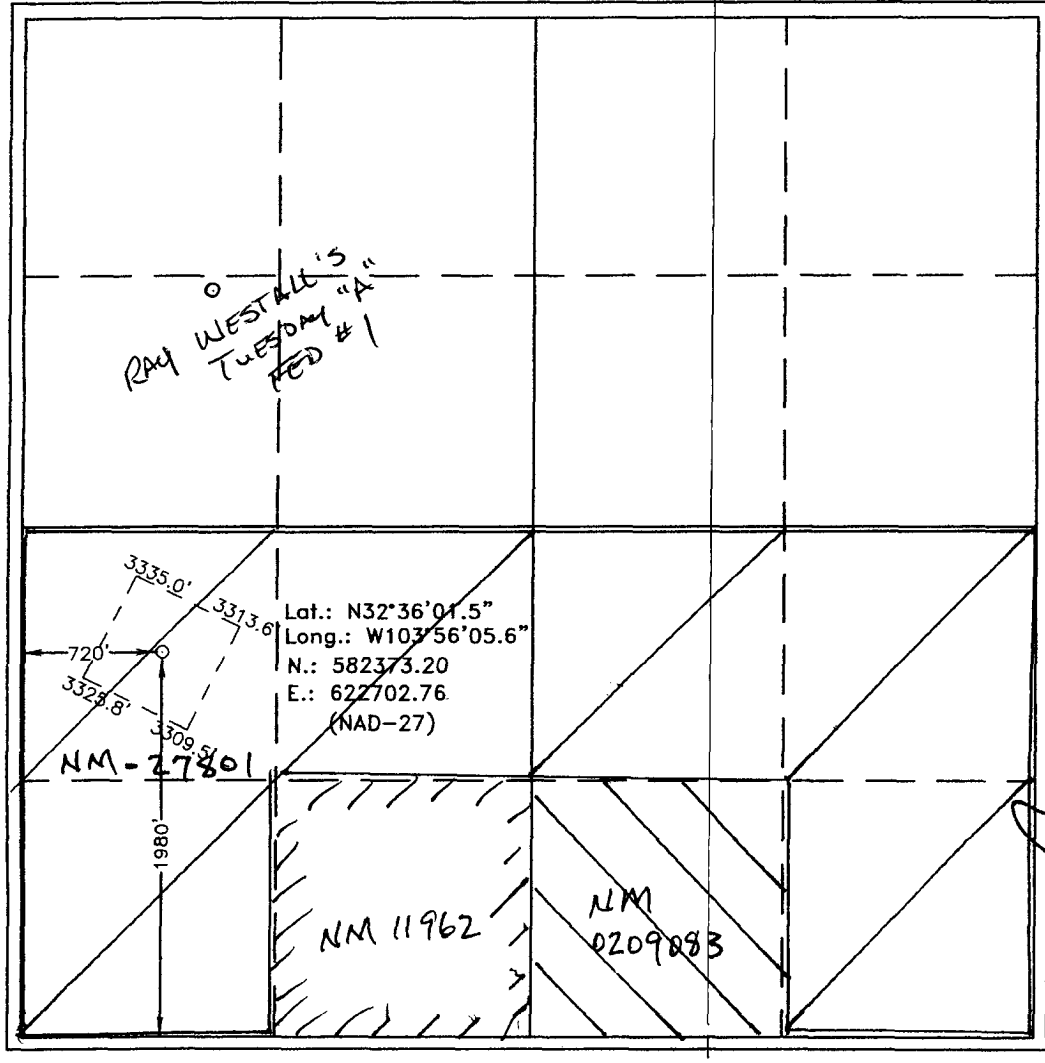
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	3	20 S	29 E		1980	SOUTH	720	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
320			

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



OPERATOR CERTIFICATION

I hereby certify that the information contained 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 pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Kristi Green 10/10/06
Signature Date

KRISTI GREEN
Printed Name

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 supervison, and that the same is true and correct to the best of my belief.

SEPTEMBER 11, 2006
Date Surveyed

Signature & Seal of Professional Surveyor

GARY L. JONES NEW MEXICO 7977 REGISTERED PROFESSIONAL LAND SURVEYOR

W.O. No. 709

Certificate No. Gary L. Jones 7977

BASIN SURVEYS

Drilling Program
Mewbourne Oil Company
Sharps 3 Federal Com #1
1980' FSL & 720' FWL
Sec 3-T20S-R29E
Eddy County, New Mexico

1. The estimated top of geological markers are as follows:

Tansill	850'	Wolfcamp	9300'
Yates	1150'	Strawn	10400'
Capitan Reef	1496'	Atoka	10700'
Delaware	3360'	Morrow	11350'
Bone Spring	5290'	Barnett	11750'

2. Estimated depths of anticipated fresh water, oil, or gas:

Water	Below 200'
Hydrocarbons	All zones below Delaware

3. Pressure control equipment:

A 2000# working pressure annular BOP will be installed on the 13 ⅜" surface casing. A 5000# WP Double Ram BOP and a 3000# WP Annular will be installed after running 9 ⅝" casing. Pressure tests will be conducted prior to drilling out under all casing strings. BOP controls will be installed prior to drilling under surface casing and will remain in use until completion of drilling operations. BOP's will be inspected and operated daily to insure mechanical integrity and the inspection will be recorded on the daily drilling report.

Kelly cock and a sub equipped with a full opening valve sized to fit the drill pipe and collars will be available on the rig floor in the open position when the kelly is not in use.

4. Proposed casing and cementing program:

A. Casing Program:

Hole Size	Casing	Wt/Ft.	Grade	Depth
26"	20"	94#	J55	0-350'
17 ½"	13 ⅜ "	54.5#	H40	0-1300'
12 ¼"	9 ⅝"	40#	N80/J55	0-3200'
8 ¾"	5 ½"	17#	P110/N80	0-11900'

Minimum casing design factors: Collapse 1.2, Burst 1.1, Tensile strength 2.0.

B. Cementing Program

i. Surface Casing: 400 sacks Class C light cement with additives. 200 sks Class C cement containing 2% CaCl.

ii Deep Surface Casing: 700 sacks Class C light cement with additives. 200 sks Class C cement containing 2% CaCl.

iii Intermediate Casing: 800 Class C light cement with additives. 400 sacks Class C cement containing 2% CaCl.

iii. Production Casing: 400 sacks Class H cement with additives. Shallower productive zones may be protected by utilizing a multiple stage cementing tool in the production casing below potentially productive zones and cementing with a light cement slurry.

**Mewbourne Oil Company reserves the right to change cement designs as hole conditions may warrant.*

5. Mud Program:

Interval	Type System	Weight	Viscosity	Fluid Loss
0'-350'	FW spud mud	8.6-9.4	32-34	NA
350'-1300'	Brine water	10.0-10.2	28-30	NA
1300'-3200'	Fresh water	8.4-8.6	28-30	NA
3200'-11900'	Fresh water/Cut Brine	8.4-10	28-34	8-20

(Note: Any Weight Above 8.6#/gallon would be to hold back Wolfcamp shale, rather than abnormal BHP.)

6. Evaluation Program:

Samples:	10' samples from intermediate casing to TD
Logging:	Compensated density and dual laterlog from intermediate casing to TD
Coring:	As needed for evaluation
Drill Stem Tests:	As needed for evaluation

7. Downhole Conditions

Zones of abnormal pressure:	None anticipated
Zones of lost circulation:	Anticipated in surface and intermediate holes
Maximum bottom hole temperature:	180 degree F
Maximum bottom hole pressure:	9.0 lbs/gal gradient or less

8. Anticipated Starting Date:

Mewbourne Oil Company intends to drill this well as soon as possible after receiving approval with approximately 45 days involved in drilling operations and an additional 10 days involved in completion operations on the project.

Hydrogen Sulfide Drilling Operations Plan

Mewbourne Oil Company
Sharps 3 Federal Com #1
1980' FSL & 720' FWL
Sec 3-T20S-R29E
Eddy County, New Mexico

1. General Requirements

Rule 118 does not apply to this well because MOC has researched this area and no high concentrations of H2S were found. MOC will have on location and working all H2S safety equipment before the Yates formation for purposes of safety and insurance requirements.

2. Hydrogen Sulfide Training

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will have received training from a qualified instructor in the following areas prior to entering the drilling pad area of the well:

1. The hazards and characteristics of hydrogen sulfide gas.
2. The proper use of personal protective equipment and life support systems.
3. The proper use of hydrogen sulfide detectors, alarms, warning systems, briefing areas, evacuation procedures.
4. The proper techniques for first aid and rescue operations.

Additionally, supervisory personnel will be trained in the following areas:

1 The effects of hydrogen sulfide on metal components. If high tensile tubular systems are utilized, supervisory personnel will be trained in their special maintenance requirements.
2 Corrective action and shut in procedures, blowout prevention, and well control procedures while drilling a well.
3 The contents of the Hydrogen Sulfide Drilling Operations Plan.

There will be an initial training session prior to encountering a know hydrogen sulfide source. The initial training session shall include a review of the site specific Hydrogen Sulfide Drilling Operations Plan.

3. Hydrogen Sulfide Safety Equipment and Systems

All hydrogen sulfide safety equipment and systems will be installed, tested, and operational prior to drilling below the intermediate casing.

1. Well Control Equipment
   - A. Flare line with automatic igniter or continuous ignition source.
   - B. Choke manifold with minimum of one adjustable choke.
   - C. Blowout preventers equipped with blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit
   - D. Auxiliary equipment including rotating head and annular type blowout preventer.

2. Protective Equipment for Essential Personnel
   Thirty minute self contained work unit located at briefing area as indicated on wellsite diagram.

3. Hydrogen Sulfide Protection and Monitoring Equipment
Two portable hydrogen sulfide monitors positioned on location for optimum coverage and detection. The units shall have audible sirens to notify personnel when hydrogen sulfide levels exceed 20 ppm.

4. Visual Warning Systems
A. Wind direction indicators as indicated on the wellsite diagram.
B. Caution signs shall be posted on roads providing access to location. Signs shall be painted a high visibility color with lettering of sufficient size to be readable at reasonable distances from potentially contaminated areas.

4. Mud Program

The mud program has been designed to minimize the amount of hydrogen sulfide entrained in the mud system. Proper mud weight, safe drilling practices, and the use of hydrogen sulfide scavengers will minimize hazards while drilling the well.

5. Metallurgy

All tubular systems, wellheads, blowout preventers, drilling spools, kill lines, choke manifolds, and valves shall be suitable for service in a hydrogen sulfide environment when chemically treated.

6. Communications

State & County Officials phone numbers are posted on rig floor and supervisors trailer. Communications in company vehicles and toolpushers are either two way radios or cellular phones.

7. Well Testing

Drill stem testing is not an anticipated requirement for evaluation of this well. A drill stem test is required, it will be conducted with a minimum number of personnel in the immediate vicinity. The test will be conducted during daylight hours only.

Notes Regarding Blowout Preventer

Mewbourne Oil Company

Sharps 3 Federal Com #1
1980' FSL & 720' FWL
Sec 3-T20S-R29E
Eddy County, New Mexico

I. Drilling nipple (bell nipple) to be constructed so that it can be removed without the use of a welder through the opening of the rotary table, with minimum internal diameter equal to blowout preventer bore.

II. Blowout preventer and all fittings must be in good condition with a minimum 5000 psi working pressure below intermediate casing.

III. Safety valve must be available on the rig floor at all times with proper connections to install in the drill string. Valve must be full bore with minimum 5000 psi working pressure.

IV. Equipment through which bit must pass shall be at least as large as internal diameter of the casing.

V. A kelly cock shall be installed on the kelly at all times.

Blowout preventer closing equipment to include and accumulator of at least 40 gallon capacity, two independent sources of pressure on closing unit, and meet all other API specifications.

Mewbourne Oil Company
BOP Scematic for
12 ¼" Hole

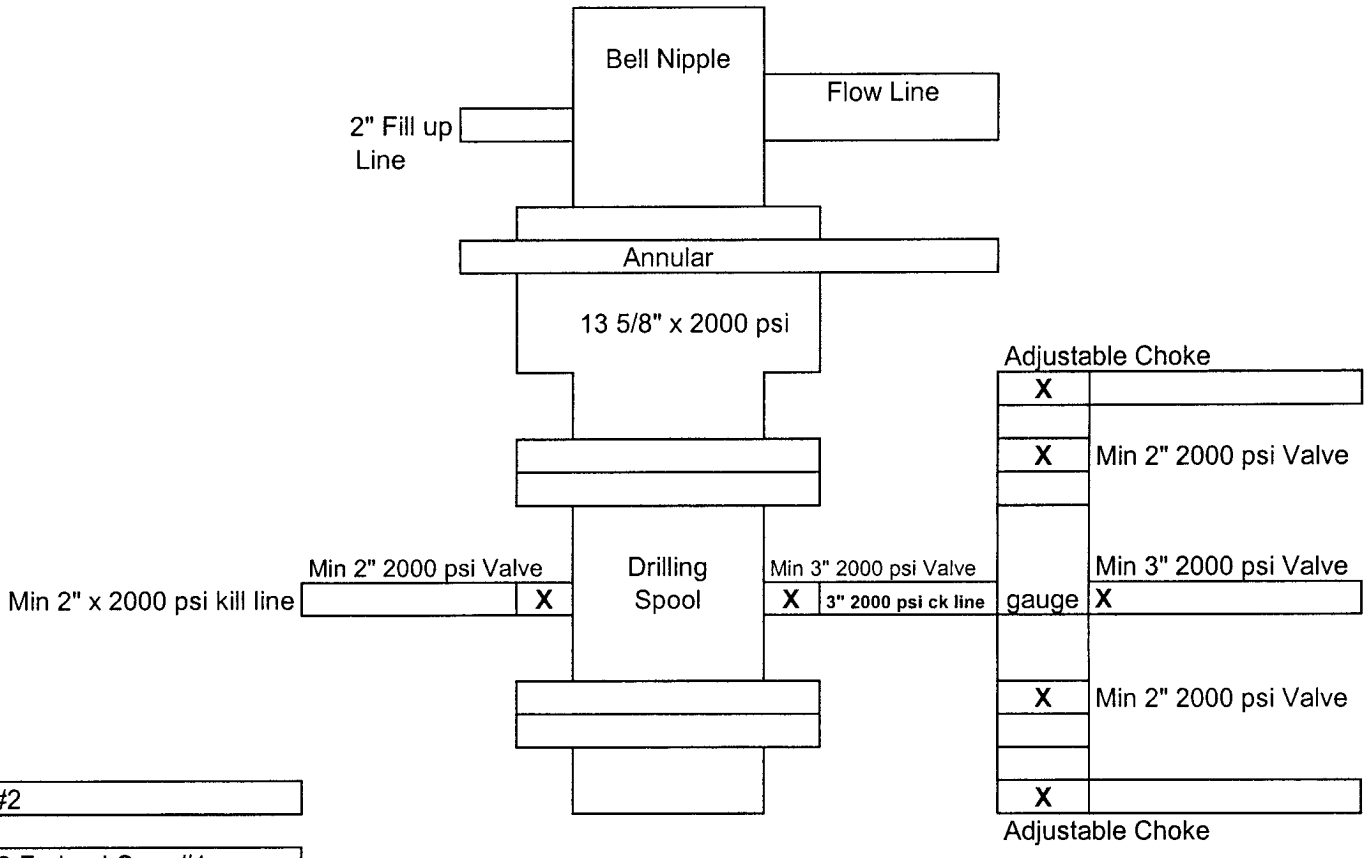


Exhibit #2

Sharps 3 Federal Com #1
1980' FSL & 720' FWL
Sec 3-T20S-R29E
Eddy, County
New Mexico

Mewbourne Oil Company
BOP Scematic for
8 3/4" or 7 7/8" Hole

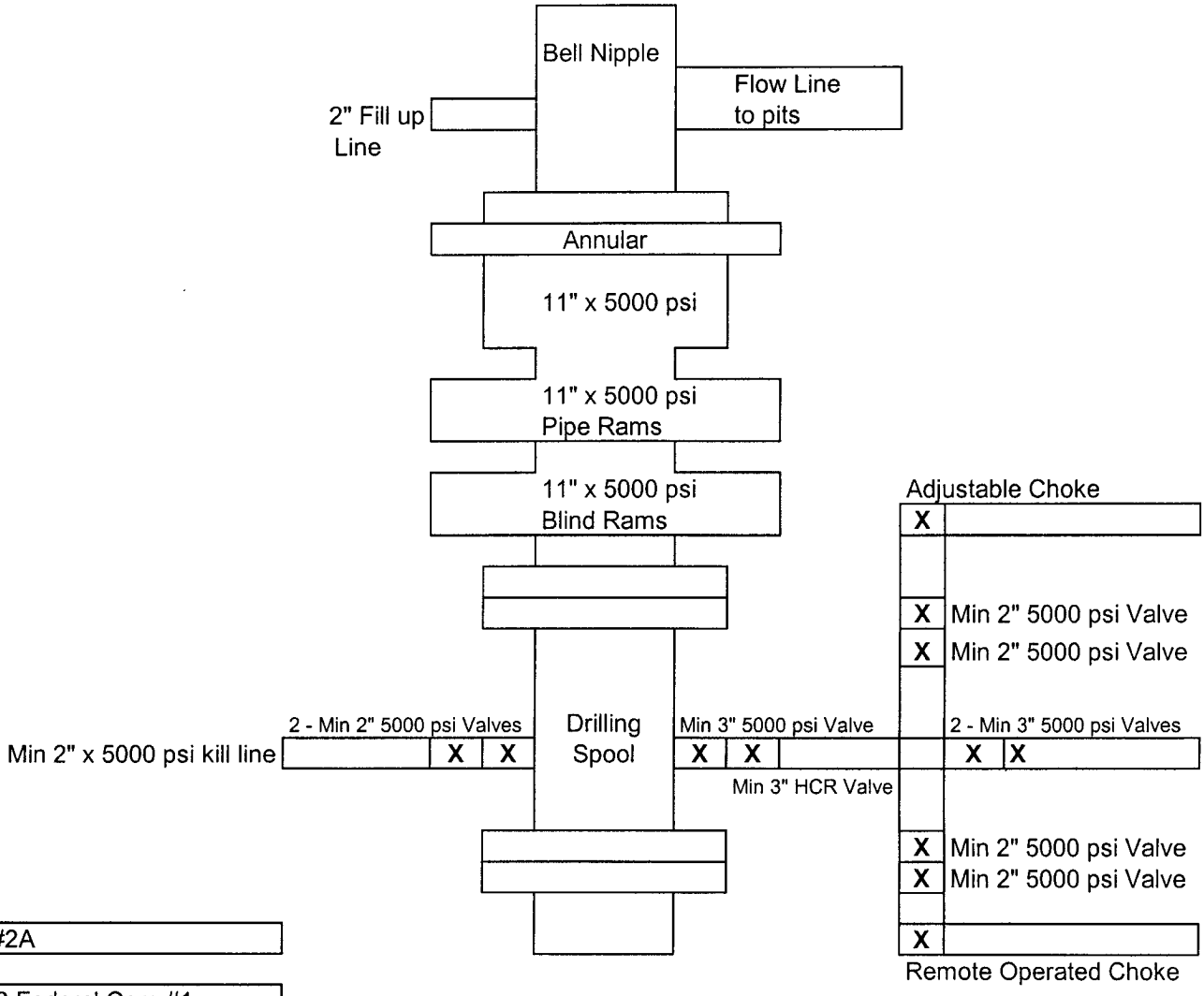


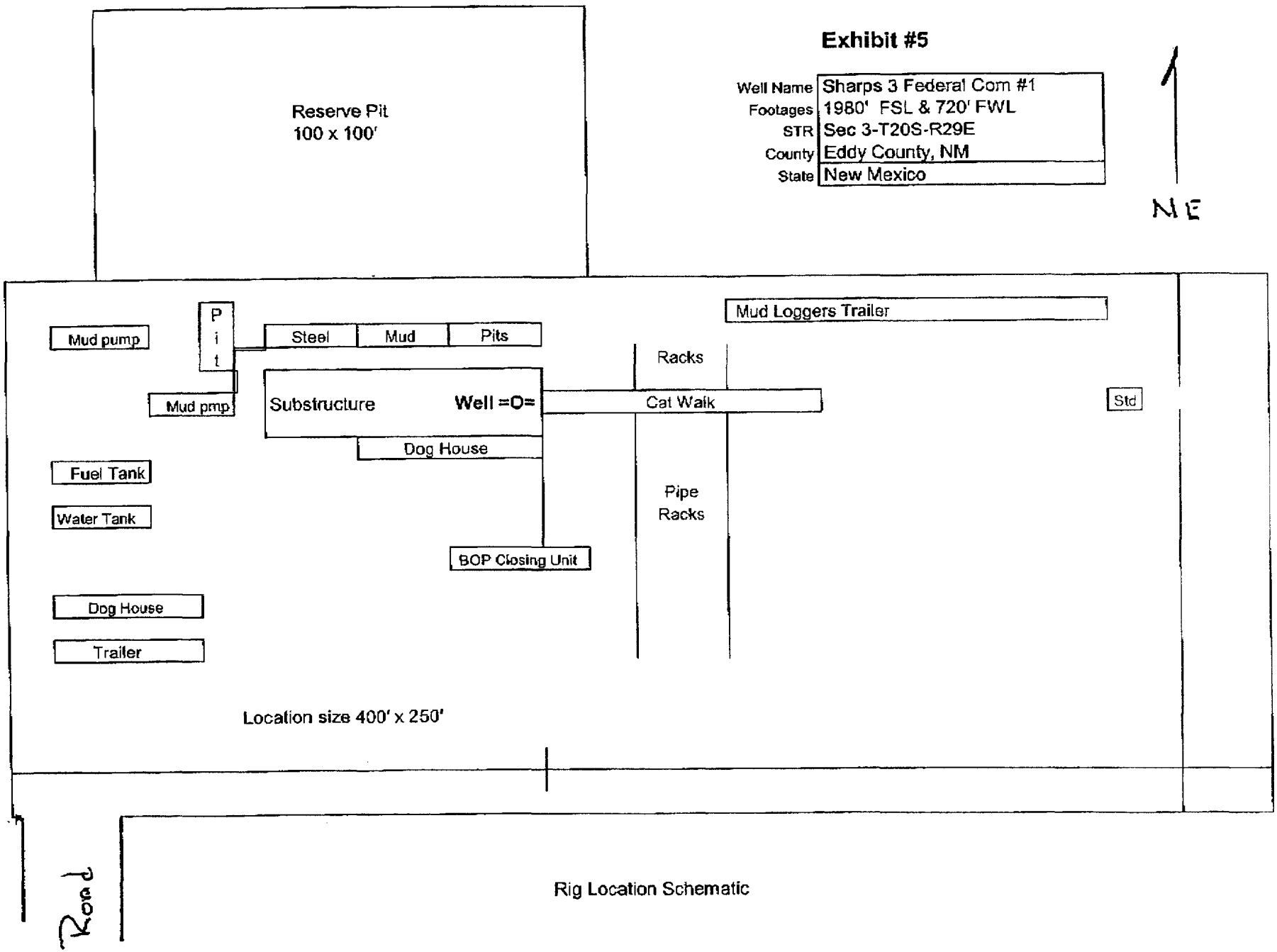
Exhibit #2A

Sharps 3 Federal Com #1
1980' FSL & 720' FWL
Sec 3-T20S-R29E
Eddy, County
New Mexico

Mewbourne Oil Company

Exhibit #5

Well Name	Sharps 3 Federal Com #1
Footages	1980' FSL & 720' FWL
STR	Sec 3-T20S-R29E
County	Eddy County, NM
State	New Mexico



Rig Location Schematic

Exhibit #4
Status of Wells in Immediate Vicinity
Mewbourne Oil Company
Sharps 3 Federal Com #1
1980' FSL & 720' FWL
Sec 3-T20S-R29E
Eddy County, New Mexico

Section 3-T20S-R29E

Operator:	Ray Westall
Well Name:	Tuesday A Federal #1
Unit letter:	E
Status:	Producing
Field:	Parkway

MULTI-POINT SURFACE USE AND OPERATIONS PLAN
MEWBOURNE OIL COMPANY

Sharps "3" Federal Com #1
1980' FSL & 720' FWL
Sec 3-T20S-R29E
Eddy County, New Mexico

This plan is submitted with Form 3160-3, Application for Permit to Drill, Covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved, and the procedures to be followed in restoring the surface so that a complete appraisal can be made of the environmental impact associated with the proposed operations.

1. Existing Roads:

A. Exhibit #3 is a road map showing the location of the proposed well (existing roads are highlighted in black and proposed roads are highlighted in blue). Exhibit #3A is a topographic map showing the location of the proposed well (existing roads are highlighted in black).

B. Directions to location from Carlsbad: Go east on Hwy 62/180 to MM 44. Turn left (north) on Eddy Co 243 (Magnum Rd). Continue north 5.8 miles to Eddy Co 238 (Burton Flat Rd). Turn right (east) and continue east 2 miles. Turn left (north) and continue north then west 1.0 mile. Turn right (north) and continue north then east 0.2 miles. When road turns south, continue east then NE on new road 1.0 mile to new location.

2. Proposed Access Road:

A Will need approx 5300' of new road.

B. The access to the location will be limited to 16' in width and will adequately drain runoff and control erosion as presently constructed.

3. Location of Existing Wells:

There are producing wells within the immediate vicinity of this well site shown on Exhibit 4.

4. Location of Existing and/or Proposed Facilities:

A. There are no production facilities on this lease at the present time.

B. In the event that the well is productive, production facilities will be located on the well pad.

C. All production vessels left on location will be painted to conform with BLM painting stipulations within 180 days of installation.

5. Location and Type of Water Supply

The well will be drilled with a combination of fresh water and brine water based mud systems. The water will be obtained from commercial suppliers in the area and/or hauled to the location by transport trucks over existing and proposed roads as indicated in Exhibit #3.

6. Source of Construction Materials

All material required for construction of the drill pad and access roads will be obtained from private, state, or federal pits. The construction contractor will be solely responsible for securing construction materials required for this operation and paying any royalties that may be required on those materials.

7. Methods of Handling Waste Disposal:

A. Drill cuttings not retained for evaluation purposed will be disposed of in the reserve pit.
B. Drilling fluids will be allowed to evaporate in the reserve pit prior to closure.
C. Water produced during operations will be disposed of in the reserve pit.
D. If any liquid hydrocarbons are produced during operations, those liquids will be stored in suitable tanks until sold.
E. Current regulations regarding the proper disposal of human waste will be followed.
F. All trash, junk, and other waste materials will be stored in proper containers to prevent dispersal and will be removed to an appropriate facility within one week of cessation of drilling and completion activities.

8. Ancillary Facilities

There are no ancillary facilities within the immediate vicinity of the proposed well site.

9. Well Site Layout

A A diagram of the drill pad is shown in Exhibit #5. Dimensions of the pad, pits, and location of major rig components are shown.
B. The reserve pit will be lined with a high quality plastic sheeting to prevent migration of fluids.
C. The pad dimension of 400' X 250' has been staked and flagged.
D. An archaeological survey has been done and cleared (NMCRIS #101575) on the proposed access road and location pad.

10. Plans for Restoration of Surface

A. Upon cessation of the proposed operations, if the well is abandoned, the location and road will be ripped and re-seeded. The reserve pit area, after allowing to dry will be leveled. The entire location will be restored to the original contour as much as reasonable possible. All trash, garbage, and pit lining will be hauled to appropriate disposal to assure the location is aesthetically pleasing as reasonable possible. All restoration work will be completed within 180 days of cessation of activities.
B. The disturbed area will be restored by re-seeding during the proper growing season.
C. Three sides of the reserve pit will be fenced prior to and during drilling operations. The reserve pit will be fenced on the fourth side after the drilling rig is removed to prevent the endangerment of livestock. The fence will remain in place until the pit area has been leveled and restored.

D. Upon cessation of the proposed operations, if the well is not abandoned, the reserve pit area will be restored as per BLM/OCD guidelines. Any additional caliche required for production facilities will be obtained from a source as described in Section 6.

E. Within 90 days of cessation of drilling and completion operations, all equipment not necessary for production operations will be removed. The location will be cleaned of all trash and junk to assure the well site is left as aesthetically pleasing as reasonably possible.

11. Surface Ownership:

The surface is owned by: Located entirely on Federal Surface

12. Other Information:

A. Topography: Refer to the archaeological report for a detailed description of flora, fauna, soil characteristics, dwellings, and historical or cultural sites.

B. The primary use of the surface at the location is for grazing of livestock.

13. Operator's Representative:

A. Through APD approval, drilling, completion and production operations:

N.M. Young, District Manager
Mewbourne Oil Company
PO Box 5270
Hobbs, NM 88241
505-393-5905

14. 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 the work associated with the operations proposed herein will be performed by Mewbourne Oil Company, its contractors and subcontractors, in accordance with this plan and the terms and conditions under 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: 10/18/06 Signature: Kristi Green for NM Young

N.M. Young, District Manager
Mewbourne Oil Company
PO Box 5270
Hobbs, NM 88241
(505) 393-5905

SECTION 3, TOWNSHIP 20 SOUTH, RANGE 29 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.

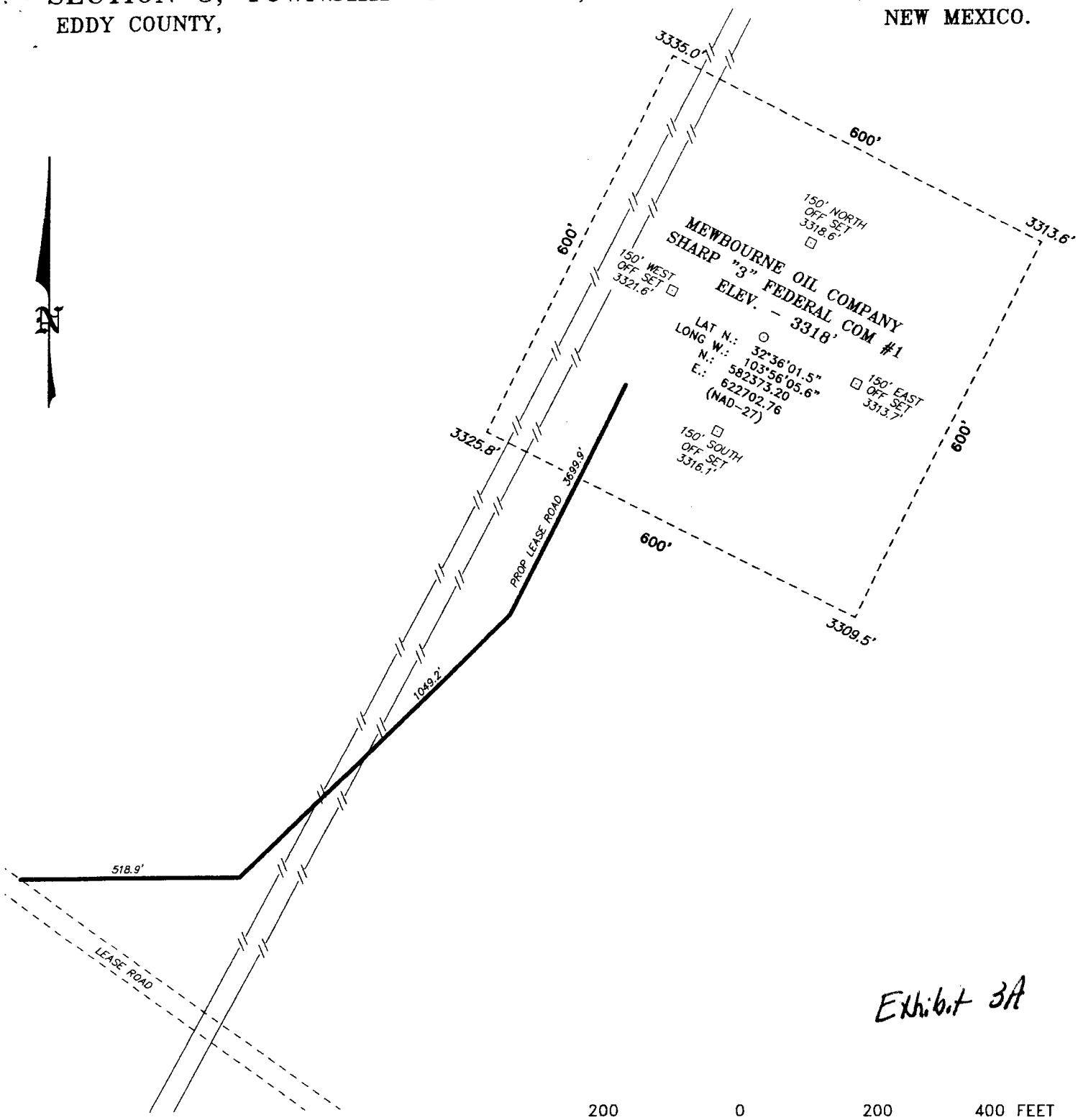


Exhibit 3A

200 0 200 400 FEET

SCALE: 1" = 200'

DIRECTIONS TO LOCATION:

FROM THE JUNCTION OF US. HWY. 62-180 AND CO. RD. 238 (BURTON FLAT), PROCEED APPROX. 4.0 MILE NORTHWEST TO LEASE ROAD AT DUKE BOOSTER SIGN, THENCE NORTH 1.1 MILE THENCE NORTHWEST 0.7 MILE, THENCE EAST 0.3 MILE TO PROPOSED LEASE ROAD.

MEWBOURNE OIL COMPANY

REF: SHARP "3" FEDERAL COM #1 / WELL PAD TOPO

THE SHARP "3" FEDERAL COM No. 1 LOCATED 1980' FROM THE SOUTH LINE AND 720' FROM THE WEST LINE OF SECTION 3, TOWNSHIP 20 SOUTH, RANGE 29 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO.

BASIN SURVEYS P.O. BOX 1786 -HOBBS, NEW MEXICO

W.O. Number: 7097	Drawn By: J. SMALL		
Date: 09-19-2006	Disk: JMS 7097W	Survey Date: 09-11-2006	Sheet 1 of 1 Sheets

SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name: Mewbourne Oil Company Well Name & #: Sharps 3 Fed. Com. #1
Location 1980 F S L & 720 F W L; Sec. 03, T. 20 S., R. 29 E.
Lease #: NM-27801 County: Eddy State: New Mexico

The Special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 AND 3165.4.

This permit is valid for a period of one year from the date of approval or until lease expiration or termination whichever is shorter.

I. SPECIAL ENVIRONMENT REQUIREMENTS

( ) Lesser Prairie Chicken (stips attached)
( ) San Simon Swale (stips attached)
( ) Flood plain (stips attached)
(x) Other **See attached Cave/Karst Stipulations**

II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

(x) The BLM will monitor construction of this drill site. Notify the (x) Carlsbad Field Office at (505) 234-5972 ( ) Hobbs Office (505) 393-3612, at least 3 working days prior to commencing construction.

(x) Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche upon completion of well and it is determined to be a producer.

( ) All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately _____inches in depth. Approximately _____cubic yards of topsoil material will be stockpiled for reclamation.

( ) Other.

III. WELL COMPLETION REQUIREMENTS

( ) A Communitization Agreement covering the acreage dedicated to the well must be filed for approval with the BLM. The effective date of the agreement must be prior to any sales.

(x) Surface Restoration: If the well is a producer, the cuttings pit will be backfilled when dry, and cut-and-fill slopes will be reduced to a slope of 3:1 or less. All areas of the pad not necessary for production must be re-contoured to resemble the original contours of the surrounding terrain, and topsoil must be re-distributed and re-seeded with a drill equipped with a depth indicator (set at depth of ½ inch) with the following seed mixture, in pounds of Pure Live Seed (PLS), per acre. If broadcasting, the seeding rate must be doubled.

( ) A. Seed Mixture 1 (Loamy Sites)
Side Oats Grama (*Bouteloua curtipendula*) 5.0
Sand Dropseed (*Sporobolus cryptandrus*) 1.0
Plains lovegrass (*Eragrostis intermedia*) 0.5

( ) B. Seed Mixture 2 (Sandy Sites)
Sand Dropseed (*Sporobolus crptandrus)* 1.0
Sand Lovegrass (*Eragostis trichodes*) 1.0
Plains Bristlegrass (*Setaria magrostachya*) 2.0

( ) C. Seed Mixture 3 (Shallow Sites)
Side oats Grama (*Bouteloua curtipendula)* 5.0
Green Spangletop (*Leptochloa dubia*) 2.0
Plains Bristlegrass (*Setaria magrostachya*) 1.0

(x) D. Seed Mixture 4 (Gypsum Sites)
Alkali Sacaton (*Sporobolus airoides*) 1.0
Four-Wing Saltbush (*Atriplex canescens*) 5.0

( ) OTHER SEE ATTACHED SEED MIXTURE

Seeding should be done either late in the fall (September 15 - November 15, before freeze up, or early as possible the following spring to take advantage of available ground moisture.

( ) Other

CUTTINGS PIT CONSTRUCTION STANDARDS

The cuttings pit shall be constructed entirely in cut material and lined with 4 oz. felt and a 20-mil plastic.
Mineral material extracted from within the boundary of the APD during construction of the well pad and cuttings pit and be used for the construction of this well pad and its immediate access road only, as long as that portion of the access road it is use on remains on-lease. Removal of any additional material from this location for construction or improvement of other well pads and other access or lease roads must first be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of the pit contents.
The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

CULTURAL

Whether or not an archaeological survey has been completed and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously unidentified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to process by BLM.

TRASH PIT STIPS

All trash, junk, and other waste material shall be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not permitted.

Conditions of Approval
Cave and Karst

EA#: NM-080-07-0080
Lease #: NM-27801
Mewbourne Oil Company
Sharps 3 Fed. Com. #1

Cave/Karst Surface Mitigation
The following stipulations will be applied to minimize impacts during construction, drilling and production.

Berming:
Any tank batteries will be constructed and bermed large enough to contain any spills that may occur.

Bermed areas will be lined with rip-stop padding to prevent tears or punctures in liners and lined with a permanent 20 mil plastic liner.

Closed Mud System with Buried Cuttings Pit:
All fluids will be in steel tanks and hauled off. A 120 X 120 foot cuttings pit will be utilized for this location. The cuttings pit will be lined with 4 oz. felt and a layer of 20 mil. plastic. Upon completion of the well all excess fluids will be vacuumed off the cuttings pit and allowed to dry. The pit liner will then be folded over the cuttings, covered with a 20 mil plastic cover and then covered with at least three feet of top soil.

Cave/Karst Subsurface Mitigation
The following stipulations will be applied to protect cave/karst and ground water concerns:

Rotary Drilling with Fresh Water:
Rotary drilling techniques in cave or karst areas will include the use of fresh water as a circulating medium in zones where caves or karst features are expected. See geologist report for depth.

Casing:
All casing will meet or exceed National Association of Corrosion Engineers specifications pertaining to the geology of the location and be run to American Petroleum Institute and BLM standards.

Cementing:
All casing strings will be cemented to the surface.

Lost Circulation:
ALL lost circulation zones from the surface to the base of the cave occurrence zone will be logged and reported.

Regardless of the type of drilling machinery used, if a bit drops of four feet or more and circulation losses greater then 75 percent occur simultaneously while drilling in any cave-bearing zone, drilling operations will immediately stop and the BLM will be notified by the operator. The BLM will assess the consequences of the situation and work with operator on corrective actions to resolve the problem.

Delayed Blasting:
Any blasting will be a phased and time delayed.

Abandonment Cementing:
Upon well abandonment the well bore will be cemented completely from 100 feet below the bottom of the cave bearing zone to the surface.

Pressure Tests:
Annual pressure tests will be performed by the Operator on all casing annuli. If the test results indicated a casing failure, remedial actions approved by the BLM will be undertaken to correct the problem.

Record Keeping:
The Operator will track customary drilling activities, including the rate of penetration, pump pressure, weight on bit, bit drops, percent of mud returns, and presence of absence of cuttings returning to the surface. As part of customary record keeping, each detectable void or sudden increase in the rate of penetration not attributable to a change in the formation type should be documented and evaluated as it is encountered.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: **Mewbourne Oil Co**
Well Name & No. **Sharps 3 Federal Com # 1**
Location: **1980' FSL, 720' FWL, SEC 3, T20S, R29E, Eddy County, NM**
Lease: **NM-27801**

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; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: **20** inch **13 3/8** inch **9 5/8** inch, **5 ½** inch

C. BOP tests

2. A Hydrogen Sulfide (H2S) Drilling Plan should be activated prior to drilling into the **N/A** 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.

6. A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any sales.

7. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. The **20** inch surface casing shall be set **above the salt @ approximately 350 feet**, below usable water 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 **13 3/8** inch salt protection casing is **circulate cement to the surface. This casing string will be set below the salt @ approxzimately 1300 feet.**

3. The minimum required fill of cement behind the **9 5/8** inch intermediate casing is **circulate cement to the surface.**

4. The minimum required fill of cement behind the **5-1/2** inch production casing is **cement shall extend upward a minimum of 200 feet above the base of the intermediate casing string.**

5. Whenever a casing string is cemented in the R-111-P Potash Area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.

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 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) required for drilling the surface and intermediate casing shall be 2000 psi. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the **9 5/8** inch casing shall be **5000** psi. **Based on the operators data that the maximum BHP would be at or below a 9.0 ppg gradient, a 3M annular preventor may be used with this BOP.**

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.
- A variance to test the_____ to the reduced pressure of ___psi with the rig pumps is approved.
- 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.
- BOPE must be tested prior to drilling into the **Wolfcamp** Formation by an independent service company.

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:

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

Engineering may be contacted at 505-706-2779 for variances if necessary.

FWright 10/30/06

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

December 14, 2006
Mewbourne Oil Company
P.O. Box 5270
Hobbs, NM 88240
Attn: Kristi Green or to Whom It May Concern:

Dear Kristi or To Whom It May Concern:

RE: Mewbourne Oil Company: Application to drill (APD) for the Sharps 3 Federal # 1, Located in Unit L, of Section 3, Township 20 South, Range 29 East, Eddy County, New Mexico NMPM.

In reference to the above noted APD, the New Mexico Oil Conservation Division (NMOCD) will require (in part) that drilling mud samples from the flow line be sampled every 100' in order to determine chloride levels during the drilling of the Capitan Reef section of the well bore. Results are to be submitted to our office before drilling to total depth of the well bore.
Please call me if you have any questions about this matter.

Respectfully yours,

Bryan G. Arrant
NMOCD's District II Geologist
Artesia, New Mexico
505-748-1283 ext. 103

CC: well file