

N.M. Oil Cons. Div. Dist. 2  
1301 W. Grand Avenue  
Alamosa, NM 88210

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

BLM Roswell District  
Modified Form No.  
NM060-3160-2

30-015-35008

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK

DRILL ☒ DEEPEN ☐ PLUG BACK ☐

b. TYPE OF WELL

OIL GAS SINGLE MULTIPLE  
WELL ☒ WELL ☐ OTHER ZONE ☐ ZONE ☐

R-111-POTASH

2. NAME OF OPERATOR

STRATA PRODUCTION COMPANY

3a. Area Code & Phone No.

505-622-1127

3. ADDRESS OF OPERATOR

P. O. Box 1030

Roswell, New Mexico 88202-1030

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

At surface

330' FSL & 2630' FWL

At proposed prod. zone

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

10 Miles East of Loving, New Mexico

15. DISTANCE FROM PROPOSED \*  
LOCATION TO NEAREST  
PROPERTY OR LEASE LINE, FT.

2630'

16. NO. OF ACRES IN LEASE

Lease 220/Unit 5,123

17. NO. OF ACRES ASSIGNED  
TO THIS WELL

40

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

1 1/4 mile SW

19. PROPOSED DEPTH

7800'

20. ROTARY OR CABLE TOOLS

Rotary

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

3142' Ground Level

22. APPROX. DATE WORK WILL START\*

May 1, 2005

23. PROPOSED CASING AND CEMENTING PROGRAM

Controlled Water Basin

HOLE SIZE	CASING SIZE	WEIGHT/FOOT	GRADE	THREAD TYPE	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8"	48#	H-40	8 Rd STC	420'	Circ
12 1/4"	8 5/8"	32#	J-55	8 Rd STC	3600'	Circ
7 7/8"	5 1/2"	17#	J-55	8 RD STC	7800'	TOC 3000'

Strata Production Company proposes to drill to a depth sufficient to test the Forty Niner Ridge Delaware. If productive, 5 1/2" casing will be set. If non-productive, the well will be plugged & abandoned in a manner consistent with Federal Regulations. Specific programs as set out in Onshore Oil & Gas Order #1 are outlined in the following attachments:

NMOCD Form C-102 Well Location and Acreage Dedication Plat

Hole Prognosis

Surface Use and Operating Plan

H2S Drilling Operations Plan

Exhibit "A" Equipment Description w/attachment

Exhibit "B" Planned Access Roads

Exhibit "C" One Mile Radius Map w/attachment of status of wells within one mile radius

Exhibit "D" Drilling Rig Layout Plan

Notification to Area Potash Lease Holders

Pit or Below-Grade Tank Registration or Closure

Statement Accepting Responsibility For Operations

Archaeological Survey

APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS AND  
SPECIAL STIPULATIONS  
ATTACHED

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24.

SIGNED

*Ken M. Britt*

TITLE

Production Records

DATE

02/02/05

(This space for Federal or State office use)

PERMIT NO.

APPROVAL DATE

/s/ Linda S. C. Rundell

APPROVED BY

TITLE

STATE DIRECTOR

DATE

JUN 01 2006

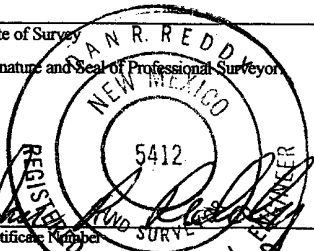
CONDITIONS OF APPROVAL, IF ANY:

\*See Instructions On Reverse Side

APPROVAL FOR 1 YEAR

F3160-3.WK3

Form C-102  
Revised June 10, 2003  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies  
JUN 16 2006  
AMENDED REPORT

<p>16</p>		<p>17 <b>OPERATOR CERTIFICATION</b></p> <p><i>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 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 a working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i></p> <p><i>Kelly M. Britt</i> 1/28/05</p> <p>Signature Date</p> <p>Kelly M. Britt</p> <p>Printed Name</p>
<p>LAT N32.31319 LON W103.86911</p> <p>2630'</p>		<p>18 <b>SURVEYOR CERTIFICATION</b></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>JANUARY 22, 2005</p> <p>Date of Survey</p> <p>Signature and Seal of Professional Surveyor</p> <p></p> <p>REGISTERED SURVEYOR</p> <p>Certificate Number</p> <p>DAN R. REDDY PROFESSIONAL SURVEYOR #5412</p>

HOLE PROGNOSIS  
FORM 3160-3 APPLICATION FOR PERMIT TO DRILL  
STRATA PRODUCTION COMPANY  
FORTY NINER RIDGE UNIT #9  
330' FSL & 2630' FWL  
SECTION 10-23S-30E  
EDDY COUNTY, NEW MEXICO

In conjunction with Form 3160-3, Application for Permit to Drill, Deepen, or Plug Back, Strata Production Company submits the following items in accordance with Onshore Oil and Gas Order Numbers 1 and 2, and all other applicable federal and state regulations.

1. Geologic Name of Surface Formation:

Permian

2. Estimated Tops of Geologic Markers:

Rustler	Surface	Delaware	3650'
Top of Salt	700'	Bone Spring	7400'
Base of Salt	3380'	T.D.	7800'

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

Surface	150'	Fresh Water
Delaware	3650' - 7400'	Oil or Gas

No other formations are expected to produce oil, gas or fresh water in measurable quantities. The surface fresh water sands will be protected by setting 13 3/8" casing at 600' and circulating cement back to surface. Any shallower zones above TD which contain commercial quantities of oil and/or gas will have cement circulated across the zone by inserting a cementing stage tool into the 5 1/2" production casing which will be run at TD.

4. Casing Program:

<u>Hole Size</u>	<u>Interval</u>	<u>OD csq</u>	<u>Weight, Grade, Jt. Cond, Type</u>
17 1/2"	420'	13 3/8"	48#, H-40, ST&C, New
12 1/4"	3600'	8 5/8"	32#, J-55, ST&C, New
7 7/8"	7800'	5 1/2"	15# & 17#, J-55, LT&C, New

Cementing Program:

Surface Casing:

13 3/8" casing will be set at approximately 420' and cemented with approximately 650 sacks of Class "C" cement with 2% CaCL, 5# Gilsonite and 1/4# Flocele per sack. The amount could be adjusted depending upon the fluid caliper results, however, cement in sufficient quantities to circulate will be utilized.

Intermediate Casing:

8 5/8" casing will be set at approximately 3600' and cemented with approximately 1500 sacks of "Lite" cement (35/65 Poz mix) with 10# salt and 1/4# Kwikseal per sack, and 200 sacks Premium Plus with 5# salt. The amount could be adjusted dependent upon fluid caliper results, however, cement in sufficient quantities to circulate will be utilized.

Production Casing:

If appropriate, 5 1/2" casing will be set at Total Depth. Strata utilizes cement in sufficient quantities to bring the cement into the 8 5/8" intermediate casing. This is normally completed in two (2) stages. The first stage is normally 600 sacks 50/50 Poz with 5# salt and 1/4# Flocele per sack. The second stage normally consists of 600 sacks of 50/50 Poz with 5# salt and 1/4# Flocele per sack.

5. Minimum Specifications for Pressure Control:

The blowout preventer equipment (BOP) shown in Exhibit "A" will consist of a double ram-type (3000 psi WP) preventer and a bag-type (hydril) preventer (3000 psi WP). Both units will be hydraulically operated and the ram-type preventer will be equipped with blind rams on top and 4 1/2" drill pipe rams on bottom. Both BOP's will be nipped up on the 13 3/8" surface casing and used continuously until TD is reached. All BOP's and accessory equipment will be tested to 1000 psi before drilling out of surface casing. Before drilling out of intermediate casing, the ram-type BOP and accessory equipment will be tested to 3000 psi and the hydril to 70% of rated working pressure (2100 psi).

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:

0' to 300'	Native mud consisting of fresh water and native muds are used for drilling purposes.
300' to 3000'	Brine water purchased from commercial sources will be utilized.
3000' to 4600'	Brine and fresh water purchased from commercial sources will be utilized. Salt gel will be used to build viscosity.
4600' to TD	Brine and fresh water with salt gel and starch will be used to maintain a viscosity of approximately 31 and a water loss of 15 to 25.

Sufficient mud materials to maintain mud properties and meet minimum lost circulation and weight increase requirements will be kept at the wellsite at all times.

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.

8. Testing, Logging and Coring Program:

Two (2) man Mudlogging unit from top of Delaware to TD DLL-MSFL, CNL-Density, Gamma Ray, Caliper.

Mudlogging unit will be employed from approximately 3600' (Top of Delaware) to 7800' (Total Depth). The Dual Laterolog will be run from TD back to the intermediate casing and the Compensated Neutron/Density Log will be run from TD back to surface. In some cases, Strata elects to run rotary sidewall cores from selected intervals from approximately 4200' to 7300' dependent upon logging results.

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

No abnormal pressures or temperatures are anticipated.

Loss of circulation is possible in the Delaware section of the hole, however, no major loss circulation zones have been reported in offsetting wells.

Strata has drilled and completed seventeen (17) wells in the immediate area. To date, Hydrogen Sulfide has not been encountered. However, if Hydrogen Sulfide is encountered, a Hydrogen Sulfide alarm on the drilling rig would be activated. All personnel have had Hydrogen Sulfide training and appropriate breathing apparatus is located on site. If necessary, the well can be shut in utilizing the blow out preventer and other equipment to prevent the migration of Hydrogen Sulfide to the surface.

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 May 1, 2005. Once commenced, the drilling operation should be finished in approximately 20 days. If the well is productive, an additional 15 days will be required for completion and testing before a decision is made to install permanent facilities.

SURFACE USE PLAN  
APPLICATION FOR PERMIT TO DRILL  
STRATA PRODUCTION COMPANY  
FORTY NINER RIDGE UNIT #9  
330' FSL & 2630' FWL  
SECTION 10-23S-30E  
EDDY COUNTY, NEW MEXICO

Submitted with Form 3160-3, Application For Permit to Drill, Deepen, or Plug Back covering the above captioned well. The purpose of the plan is to describe the location, the proposed construction activities and operations plan, the surface disturbance involved, and the rehabilitation of the surface after completion of said well so that an appraisal can be made of the environment affected by the proposed well.

1. Existing Roads:

- A. The well site and elevation plat for the proposed well is attached. It was staked by Dan R. Reddy, Engineer, Carlsbad, New Mexico.
- B. All roads to the location are shown in Exhibit "B". 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 on-site inspection.
- C. Directions to location: 10 miles east from Loving, New Mexico, the well is located approximately 1 & 1/4 mile to the south of State Highway 128.
- 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 "B" shows approximately 750' of new access road to be constructed and is illustrated in yellow. The road will be constructed from the existing North South road as follows:

- A. The average grade will be less than 5%.
- B. No turnouts will be necessary.
- C. No culverts, cattleguards, gates, low-water crossings or fence cuts are necessary.
- D. Surfacing material will consist of native caliche. If required, road across pad will be surfaced with a minimum of 6" of caliche. Caliche will be obtained from the nearest approved caliche pit. Any additional materials that are required will be purchased from the dirt contractor.



3. Location of Existing Wells:

Exhibit "C" shows all existing wells within a one mile radius of proposed well. A list of these wells is shown on the attachment to Exhibit "C".

4. Location of Existing and/or Proposed Facilities:

In the event the proposed well proves to be productive, Strata Production Company will furnish maps or plats showing On Well pad facilities and Off Well pad facilities (if needed) by Sundry Notice before construction of these facilities starts.

5. Location and Type of Water Supply:

The well will be drilled with a combination of brine and fresh water mud systems as outlined in the Hole Prognosis. The water will be purchased from commercial water stations in the area and trucked to the location by transport over the existing and proposed access roads shown in Exhibit "B". If a commercial fresh water source is nearby, pipeline may be laid along existing road ROW's and fresh water pumped to the well. No water well will be drilled on the location.

6. Source of Construction Materials:

All caliche required for construction of the drill pad and the proposed new access road (approximately 2500 cubic yards) will be obtained from an approved caliche pit. All roads and pads will be constructed of 6" 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 steel mud tanks. 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 150' x 150' x 6' deep and fenced on three sides prior to drilling. It will be fenced on the fourth side immediately following rig removal. The reserve pit will be plastic lined (12 mil thickness) to minimize loss of drilling fluids and saturation of the ground with brine water. Drilling fluids will be allowed to evaporate in the reserve pits until pits are dry.

- C. Water produced from the well during completion may be disposed into the reserve pit or a steel tank (depending on the rates). After the well is permanently placed on production, produced water will be piped to the Forty Niner Ridge Unit #1 SWD well. Produced oil will be collected in steel tanks until sold.
- D. A portable chemical toilet will be provided on the location for human waste during the drilling and completion operations. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- E. Garbage and trash produced during drilling or completion operations will be disposed in a separate trash trailer on location. 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 the 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 kept closed until it has dried. When the reserve pit is dry enough to breakout and fill and, weather permits, 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 facility will be built as a result of the operations of the proposed well.

9. Well Site Layout:

- A. The drill pad layout, with elevations staked by Dan R, Reddy, Engineer, is shown in Exhibit "D". Dimensions of the pad, 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. Since the pad is almost level no major cuts will be required.

- B. Exhibit "D" shows the planned orientation for the rig and associated drilling equipment, reserve pit, trash pit, 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. Plan for Restoration of the Surface:

- A. Upon completion of the proposed operations, if the well is to be abandoned, 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.

All trash, garbage and pit lining will be buried or hauled away in order to leave the location in an aesthetically pleasing condition. All pits will be filled and the location leveled within 120 days after abandonment.

- 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 the rig is removed, the reserve pit will be fenced on the rig (fourth) side to prevent livestock or wildlife from being entrapped. The fencing 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.
- 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 and used for construction of thicker pads or firewalls for the tank battery installation. Any additional caliche required for facilities will be obtained from a BLM approved caliche pit. 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 and reseeded as per BLM specifications.

11. Surface Ownership:

The wellsite and lease is located entirely on Federal surface.

12. Other Information:

- A. The topography around the well site is rolling terrain with vegetation of sagebrush and native grass. The vegetation cover consists of prairie grasses and flowers. Wildlife in the area probably includes those typical of semi-arid desert land.
- B. The soils are clayey sand over caliche base.
- C. There are no permanent or live water in the immediate area.
- D. There are no residences and other structures in the area.
- E. The land in the area is used primarily for grazing purposes.
- F. An archaeological study has been conducted for the location and new access road. The report is included in this packet.

13. Lessee's and Operator's Representative:

MARK MURPHY  
P. O. BOX 1030  
ROSWELL, NEW MEXICO 88202-1030  
PHONE NUMBER: (505) 622-1127 -OFFICE EXT 12

14. Certification:

I hereby certify that I, or persons under my direct supervision have inspected the proposed drill site which currently exists; that the statements made in the plan are to the best of my knowledge, true and correct; and the work associated with the operations proposed herein will be performed by Strata Production Company and its contractors and sub-contractors in conformity with the plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 USC 1001 for the filing of a false statement.

STRATA PRODUCTION COMPANY

  
KELLY M. BRITT  
PRODUCTION RECORDS

DATE: February 2, 2005

# STRATA PRODUCTION COMPANY

## H<sub>2</sub>S DRILLING OPERATIONS PLAN

### I. HYDROGEN SULFIDE TRAINING

- A. All contractors and subcontractors employed by Strata Production Company will receive or have received training from a qualified instructor within the last twelve months in the following areas prior to commencing drilling operations on the well.
  - 1. The hazards and characteristics of hydrogen sulfide (H<sub>2</sub>S).
  - 2. Safety precautions.
  - 3. Operations of safety equipment and life support systems.
- B. In addition, contractor supervisory personnel will be trained or prepared in the following areas:
  - 1. The effect of H<sub>2</sub>S on metal components in the system. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
  - 2. Corrective action and shut-down procedures when drilling or reworking a well, blowout prevention and well control procedures, if the nature of work performed involves these items.
  - 3. The contents and requirements of the contingency plan when such plan is required.
- C. All personnel will be required to carry documentation of the above training on their person.

### II. H<sub>2</sub>S EQUIPMENT AND SYSTEMS

#### A. SAFETY EQUIPMENT

The following safety equipment will be on location.

- 1. Wind direction indicators as seen in attached diagram.
- 2. Automatic H<sub>2</sub>S detection alarm equipment both audio and visual.

3. Clearly visible warning signs as seen on the attached diagram. Signs will use the words "POISON GAS" and "CAUTION" with a strong color contrast.
4. Protective breathing equipment will be located in the dog house and at briefing areas as seen in the attached Diagram.

## B. WELL CONTROL SYSTEMS

### 1. Blowout Prevention Equipment

Equipment includes but is not limited to:

- a. Pipe rams to accommodate all pipe sizes.
- b. Blind rams.
- c. Choke manifold.
- d. Closing unit.

### 2. Communication

- a. The rig contractor will be required to have two-way communication capability. Strata Production Company will have either land-line or mobile telephone capabilities.

### 3. Mud Program

- a. The mud program has been designed to minimize the volume of  $H_2S$  circulated to surface. Proper mud weight, safe drilling practices and the use of  $H_2S$  scavengers, when appropriate, will minimize hazards when penetrating  $H_2S$  bearing zones.

### 4. Drill Stem Test intervals are as follows:

- a. None planned

### III. WELLSITE DIAGRAM

A. A complete wellsite diagram including the following information is attached.

1. Rig orientation
2. Terrain
3. Briefing areas
4. Ingress and egress
5. Pits and flare lines
6. Caution and danger signs
7. Wind indicators and prevailing wind direction

## EXHIBIT "A"

### EQUIPMENT DESCRIPTION

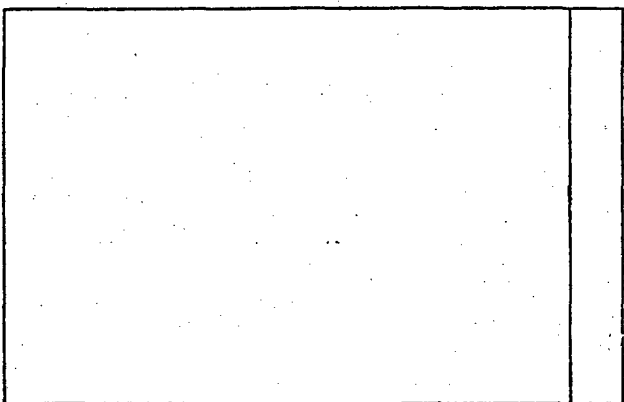
All equipment should be at least 3,000 psi WP or higher unless otherwise specified.

1. Bell nipple
2. Hydril bag type preventer
3. Ram type pressure operated blowout preventer with blind rams.
4. Flanged spool with one 3" and one 2" (minimum) outlet.
5. 2" (minimum) flanged plug or gate valve.
6. 2"x 2"x 2" (minimum) flanged.
7. 3" gate valve.
8. Ram type pressure operated blowout preventer with pipe rams.
9. Flanged type casing head with one side outlet.
10. 2" threaded (or flanged) plug or gate valve. Flanged on 5000# WP, threaded on 3000# WP or less.
11. 3" flanged spacer spool.
12. 3"x 2"x 2"x 2" flanged cross.
13. 2" flanged plug or gate valve.
14. 2" flanged adjustable choke.
15. 2" threaded flange.
16. 2" XXH nipple.
17. 2" forged steel 90° Ell.
18. Cameron (or equal) threaded pressure gauge.
19. Threaded flange.
20. 2" flanged tee.
21. 2" flanged plug or gate valve.
22. 2 1/2" pipe, 300' to pit, anchored.
23. 2 1/2" SE valve.
24. 2 1/2" line to steel pit or separator.

#### NOTES:

- 1). Items 3, 4 and 8 may be replaced with double ram type preventer with side outlets between the rams.
- 2). The two valves next to the stack on the fill and kill line to be closed unless drill string is being pulled.
- 3). Kill line is for emergency use only. This connection shall not be used for filling.
- 4). Replacement pipe rams and blind rams shall be on location at all times.
- 5). Only type U, LSW and QRC ram type preventers with secondary seals are acceptable for 5000 psi WP and higher BOP stacks.
- 6). Type E ram-type BOP's with factory modified side outlets may be used on 3000 psi or lower WP BOP stacks.





hydraulic operating system which is to be a closed system. (2) Accumulators with a precharge of nitrogen to its rated pressure within \_\_\_\_\_ minutes. Also, the pumps are to be connected to the nitrogen precharge pressure to less than 750 PSI and connected so as to receive the aforementioned fluid change. With the changing pumps shut down, the pressurized fluid volume stored in the accumulators shall be not less than 1000 PSI with the remaining accumulator fluid volume at least \_\_\_\_\_ percent of the original. (3) When requested, on additional source of the remaining accumulator pressure shall be not less than 1000 PSI with the remaining accumulator fluid volume at least \_\_\_\_\_ percent of the original. (4) When requested, an additional source of power, remote and equivalent, is to be available to operate the above pumps, as there shall be additional pumps operated by separate power and equal in performance capabilities.

The closing manifold and remote closing manifold shall have a separate control for each pressure-operated device. Controls one to be labeled, with control handles indicating open and closed positions. A pressure reducer and regulator must be provided for operating the Hydrulift preventer. When requested, a second pressure reducer shall be available to limit operating fluid pressures to non preventers. Cull Legion No. 38 hydraulic oil, or equivalent or better, is to be used as the fluid to operate the hydraulic equipment.

The choke manifold, choke flow line, and choke lines are to be supported by metal stands and adequately anchored. The choke flow line, relief line, and choke lines shall be constructed as strongly as possible and without sharp bends. Easy and safe access is to be maintained to the choke manifold. If deemed necessary, walkways and stairways shall be erected in and around the choke manifold. All valves are to be selected for operation in the presence of oil, gas, and drilling fluid. The choke flow line valves and relief line valves connected to the drilling spool and all ram type preventers must be equipped with stem extensions, universal joints if needed, and hand wheels which are to extend beyond the edge of the derrick substructure. All other valves are to be equipped with handwheels.

**\*To include derrick floor mounted controls.**

Attachment to Exhibit "C"

STATUS OF WELLS WITHIN ONE MILE RADIUS

FORTY NINER RIDGE UNIT #9

Section 10-23S-30E

Eddy County, New Mexico

February 2005

Section 10-23S-30E

Neil H. Wills et al

Well #

Montgomery #1

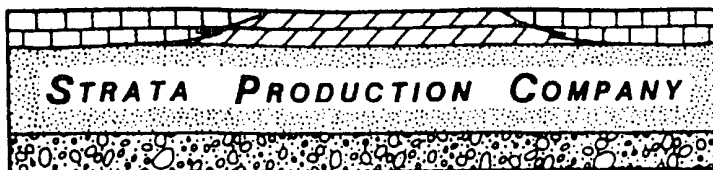
Footage

2340' FNL & 2050' FEL

Status/  
Formation

Dry Hole

POST OFFICE DRAWER 1030  
ROSWELL, NM 88202-1030



200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700  
ROSWELL, NEW MEXICO 88203

TELEPHONE (505) 622-1127  
FACSIMILE (505) 623-3533

February 1, 2005

Mosaic Potash Carlsbad, Inc.  
ATTN: Mr. Dan Morehouse  
Mine Engineering Superintendent  
P. O. Box 71  
Carlsbad, New Mexico 88221-0071

Re: Application to Drill in Potash Area  
Forty Niner Ridge Unit #9  
Section 10-23S-30E  
Eddy County, New Mexico

Dear Mr. Morehouse,

In accordance with the State of New Mexico Oil Conservation Division Rule R-111-PC (2)(3), enclosed herewith please find the following for your review and further action:

1. Form 3160-3 Application For Permit To Drill.
2. Form C-102 Well Location and Acreage Dedication Plat.

State of New Mexico Public Land records reflect Mosaic Potash Carlsbad, Inc. as a potash lessee in the area of the captioned lands. Strata Production Company, a New Mexico corporation, hereby advises you of its intention to drill a well to 7800' at a location 330' FSL & 2630' FWL of Section 10, Township 23 South, Range 30 East, Eddy County, New Mexico.

If you are in agreement with Strata that drilling at the proposed location will not interfere with potash operations, please sign and return one copy of this letter within 10 days of receipt of said letter.

Should you have any questions or require additional information, please advise.

Sincerely,

Kelly M. Britt  
Production Records

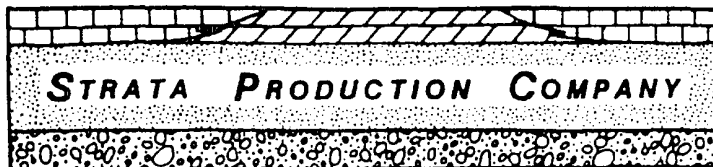
AGREED TO AND ACCEPTED THIS \_\_\_\_\_ DAY OF FEBRUARY, 2005.

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

cc: Bureau of Land Management, Carlsbad, NM

POST OFFICE DRAWER 1030  
ROSWELL, NM 88202-1030



200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700  
ROSWELL, NEW MEXICO 88203

TELEPHONE (505) 622-1127  
FACSIMILE (505) 623-3533

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

Strata Production Company  
P. O. Box 1030  
Roswell, New Mexico 88202-1030

TO WHOM IT MAY CONCERN:

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

Forty Niner Ridge Unit #9  
Federal Lease Number NM-0531075  
Township 23 South, Range 30 East  
Section 10: SE/4, SW/4  
Eddy County, New Mexico  
Formation: Delaware  
Bond: Statewide  
Bond Number: OGB-233

STRATA PRODUCTION COMPANY

February 1, 2005  
Date

  
\_\_\_\_\_  
Kelly M. Britt  
Production Records

## CONDITIONS OF APPROVAL - DRILLING

Well Name & No. 9 - FORTY NINER RIDGE UNIT  
Operator's Name: STRATA PRODUCTION COMPANY  
Location: 330' FSL & 2630' FWL - SEC 10 - T23S - R30E - EDDY COUNTY  
Lease: NM-0531075

### I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 for wells in Chaves and Roosevelt Counties; the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 234-5909 or (505) 361-2822 (After hours) - 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: 13-3/8 inch 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.

5. Gamma-Ray/Neutron, Litho-Density or a Neutron Density log 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 13-3/8 inch surface casing shall be set at 420 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 8-5/8 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 circulate cement to the surface.

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.

(ORIG. SGD.) LES BABYAK

### **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) is 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.