H-06-19

5/2/06

Form 3160-3
(July 1992)

OCD-ARTESIA SUBMIT IN TRIPLICATE*

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

(Other instructions on reverse side)

5. LEASE DESIGNATION AND SERIAL NO.
LC-028784(b)

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK
DRILL [X] DEEPEN [ ]

1b. TYPE OF WELL
OIL WELL [ ] GAS WELL [X] OTHER SINGLE ZONE [X] MULTIPLE ZONE [ ]

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME, WELL NO.
Keely 26 Federal No. 1 35864

2. NAME OF OPERATOR
Gruy Petroleum Management Co. 162683

RECEIVED
JUL 20 2006
OCD-ARTESIA

9. API WELL NO.
30-015- 35025

3. ADDRESS AND TELEPHONE NO.
P.O. Box 140907 Irving TX 75014 972-401-3111

10. FIELD AND POOL, OR WILDCAT
Sand Tank; Morrow

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*)
1980' FNL & ~~990~~ 1550' FEL B H St
per attached SN dated 6-5-06 DA

11. SEC. T.,R.,M., BLOCK AND SURVEY OR AREA G THS
26-17S-29E

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*
2 miles Northeast of Loco Hills

12. COUNTY OR PARISH: Eddy
13. STATE: NM

15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, T.O (Also to nearest drlg. unit line, if any)	16. NO. OF ACRES IN LEASE	17. NO. OF ACRES ASSIGNED TO THIS WELL
990'		320

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.	19. PROPOSED DEPTH	20. ROTARY OR CABLE TOOLS
N/A	11600'	Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)
3582' GR Roswell Controlled Water Basin

22. APPROX. DATE WORK WILL START*
06-30-06

23 PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE,SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	H-40 13-3/8"	48 #	350' - 500' *	490 sx circulate WITNESS
12-1/4"	J-55 9-5/8"	40 #	4700'	1200 sx circulate
7-7/8"	P-110 5-1/2"	17 #	11600'	1620 sx TOC 2700'

*Set surface casing 25' into the top of the Rustler, which is estimated to be between 350' and 500'.

From the base of the surface pipe through the running of production casing, the well will be equipped with a 5000 - psi BOP system. We are requesting a variance for the 13-3/8" surface casing and BOP testing from Onshore Order No. 2, which states all casing strings below the conductor shall be pressure tested to 0.22 psi per foot or 1500#, whichever is greater, but not to exceed 70% of the manufacturer's stated maximum internal yield. During the running of the surface pipe and the drilling of the intermediate hole we do not anticipate any pressures greater than 1000#, and we are requesting a variance to test the 13 3/8" casing and BOP system to 1000# psi and use rig pumps instead of an independent service company.

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

24 [signature] TITLE Mgr. Ops. Admin DATE 05-01-06

If an earthen pit(s) will be utilized in association with this work, a permit must be obtained prior to pit construction.

APPROVAL DATE

quitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

/s/ TITLE FIELD MANAGER DATE JUL 17 2006

*See Instructions On Reverse Side

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001, makes 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.

DECLARED WATER BASIN
CEMENT BEHIND THE 13 3/8"
CASING MUST BE CIRCULATED
WITNESS

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

Sec 17 T26S R29E

Form 3160-3
(November 1994)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

OCD-ARTESIA

FORM APPROVED
OMB No. 1004-0135
Expires July 31, 1996

756

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to re-enter an abandoned well. Use form 3160-3 (APD) for such proposals.

SUBMIT IN TRIPLICATE - Other instructions on reverse side

5. Lease Serial No.: LC-028784
6. If Indian, Allottee or Tribe Name:
7. If Unit or CA/Agreement, Name and/or No.:

1. Type of Well: [ ] Oil Well [X] Gas Well [ ] Other
8. Well Name and No.: Keely 26 Federal No. 1
2. Name of Operator: Cimarex Energy Co. of Colorado
9. API Well No.: 30-015-
3a. Address: PO Box 140907; Irving, TX 75014-0907
3b. Phone No. *(include area code)*: 972-401-3111
10. Field and Pool, or Exploratory Area: Sand Tank; Morrow
4. Location of Well *(Footage, Sec., T., R., M., or Survey Description)*: G-26-17S-29E; 1980' FNL & 1550' FEL
11. County or Parish, State: Eddy County, NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
[X] Notice of Intent	[ ] Acidize	[ ] Deepen	[ ] Production (Start/Resume)	[ ] Water Shut-Off
	[ ] Alter Casing	[ ] Fracture Treat	[ ] Reclamation	[ ] Well Integrity
[ ] Subsequent Report	[ ] Casing Repair	[ ] New Construction	[ ] Recomplete	[ ] Other
	[X] Change Plans	[ ] Plug and Abandon	[ ] Temporarily Abandon	
[ ] Final Abandonment Notice	[ ] Convert to Injection	[ ] Plug Back	[ ] Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, included estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

Cimarex Energy Co. of Colorado is changing the location of its proposed Keely 26 Federal No. 1 well.

Please see attached plats.

14. I hereby certify that the foregoing is true and correct

Name *(Printed/Typed)*: Natalie Krueger
Title: Reg Tech
Signature: Natalie Krueger
Date: June 5, 2006

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by: /s/ Tony J. Herrell
FIELD MANAGER
Date: JUL 17 2006

Conditions of Approval, if any, are attached. Approval of this notice 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.

Office: CARLSBAD FIELD OFFICE

Title 18 U.S.C. Section 1001, makes 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)

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
	84872	Undes Sand Tank; Morrow

Property Code	Property Name	Well Number
	KEELY 26 FEDERAL	1

OGRID No.	Operator Name	Elevation
162683	CIMAREX ENERGY CO. OF COLORADO	3576'

Surface Location

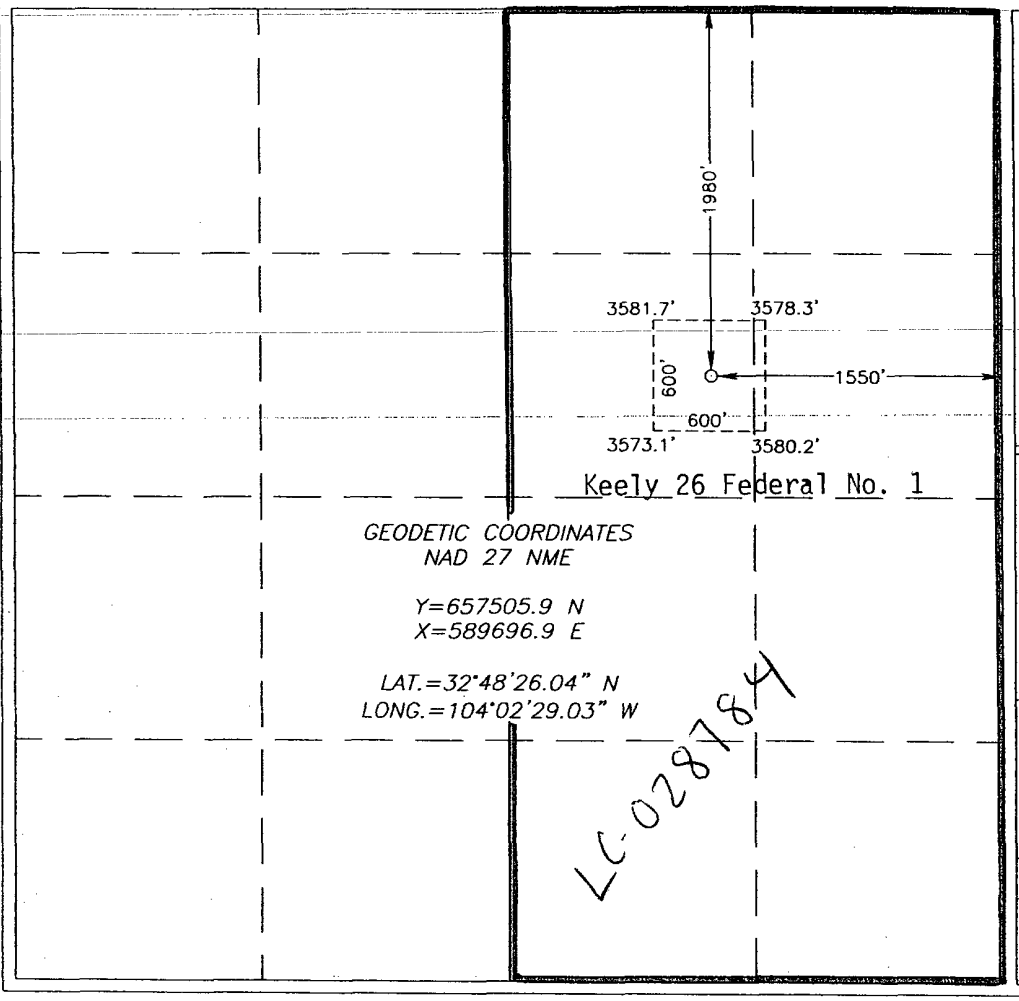
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	26	17-S	29-E		1980'	NORTH	1550	EAST	EDDY

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	N		

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 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.

Signature — Date: 6-5-06

Printed Name: Mgr Operations Administration

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

MAY 18, 2006

Date Surveyed: MR

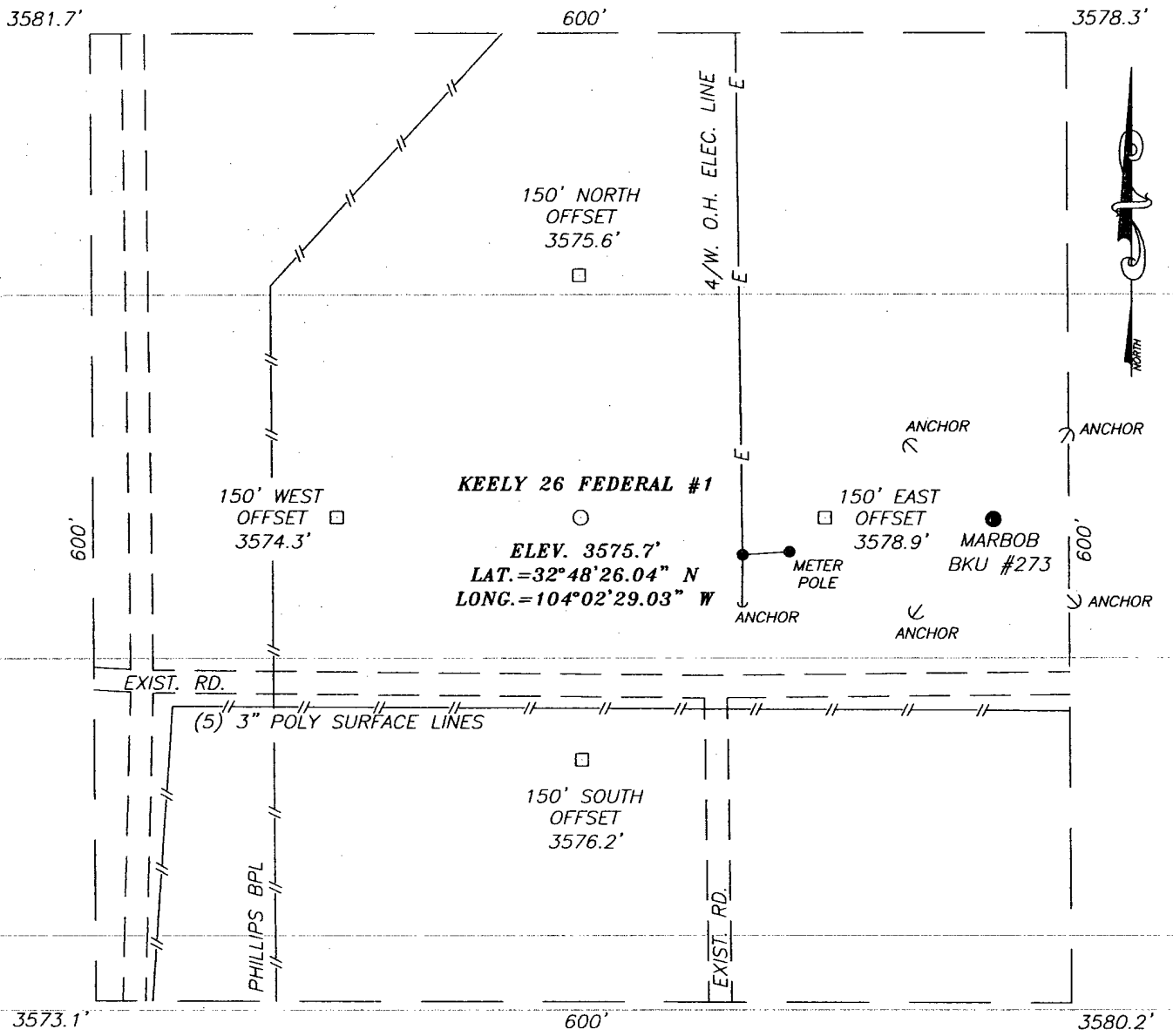
Signature & Seal of Professional Surveyor: Gary L. Eidson 5/30/06

06.11.0837

Certificate No. GARY EIDSON 12641

SECTION 26, TOWNSHIP 17 SOUTH, RANGE 29 EAST, N.M.P.M.,

EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF U.S. HWY. 82 AND CO. RD. #216 (GENERAL AMERICAN RD.), GO SOUTH ON GENERAL AMERICAN RD. APPROX. 0.9 MILES. TURN RIGHT AND GO WEST APPROX. 1.4 MILES. THIS LOCATION IS APPROX. 100 FEET NORTH.

100 0 100 200 Feet

Scale: 1"=100'

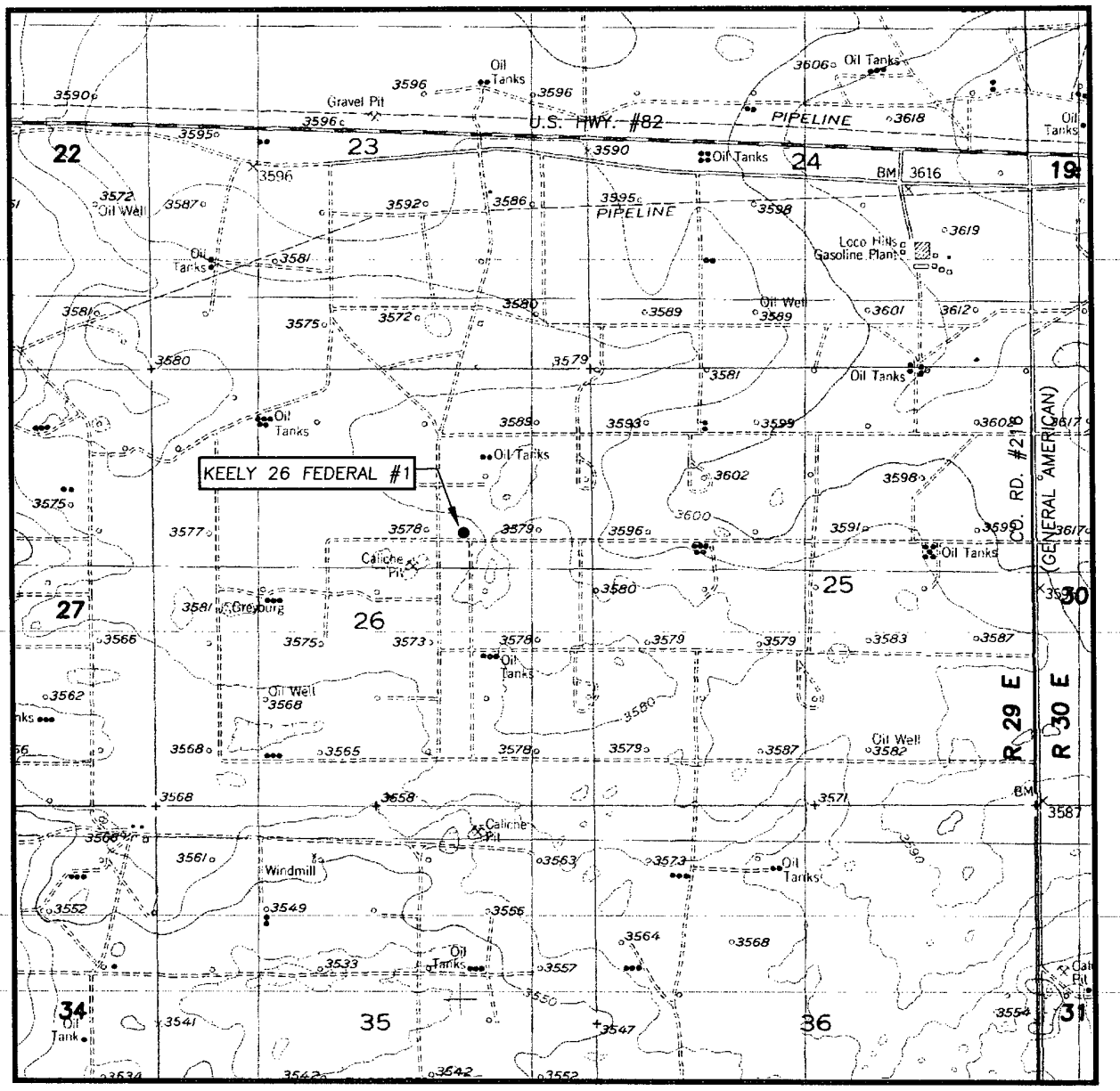
CIMAREX ENERGY CO. OF COLORADO

KEELY 26 FEDERAL #1
LOCATED 1980 FEET FROM THE NORTH LINE
AND 1550 FEET FROM THE EAST LINE OF SECTION 26,
TOWNSHIP 17 SOUTH, RANGE 29 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.

Survey Date: 05/18/06	Sheet 1 of 1 Sheets		
W.O. Number: 06.11.0837	Dr By: M.R.	Rev 1: N/A	
Date: 05/24/06	Disk: CD#6	06110837	Scale: 1"=100'

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

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
RED LAKE SE, N.M. – 10'

SEC. 26 TWP. 17-S RGE. 29-E

SURVEY N.M.P.M.

COUNTY EDDY STATE NEW MEXICO

DESCRIPTION 1980' FNL & 1550' FEL

ELEVATION 3576'

OPERATOR CIMAREX ENERGY CO. OF COLORADO

LEASE KEELY 26 FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
RED LAKE SE, N.M.

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

Gruy Petroleum Management Co.
5215 North O'Connor Blvd. □ Suite 1500 □ Irving, TX 75039 □ (972) 401-3111 □ Fax (972) 443-6486
Mailing Address: P.O. Box 140907 □ Irving, TX 75014-0907
A wholly-owned subsidiary of Cimarex Energy Co., a NYSE Listed Company, "XEC"

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

Bureau of Land Management
620 E. Greene St.
Carlsbad, New Mexico 88220
Attn: Ms. Linda Denniston

Gruy Petroleum Management Co. accepts all applicable terms, conditions, stipulations and restrictions concerning operations conducted on the leased land, or portion thereof, as described below:

Lease No.: LC-028784 – All Section 26-T17S-R29E

County: Eddy County, New Mexico

Formation (S): Morrow

Bond Coverage: Statewide BLM Bond

BLM Bond File No.: NM 2575

Authorized Signature: Zeno Farris

Representing Gruy Petroleum Management Co.

Name: Zeno Farris

Title: Manager, Operations Administration

Date: May 1, 2006

Application to Drill

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

In response to questions asked under Section II B of Bulletin NTL-6 the following information is provided for your consideration:

1 Location: 1980' FNL & 990' FEL

2 Elevation above sea level: GR 3582'

3 Geologic name of surface formation: Quaternery Alluvium Deposits

4 Drilling tools and associated equipment: Conventional rotary drilling rig using fluid as a circulating medium for solids removal.

5 Proposed drilling depth: 11600'

6 Estimated tops of geological markers:

San Andres	2600'
Yeso	4100'
Wolfcamp	7500'
Cisco	9150'
Strawn LS	10200'
Atoka Clastics	10360'
Morrow Clastics	10845'

7 Possible mineral bearing formation:

Atoka	Gas
Morrow	Gas

8 Casing program:

Hole Size	Interval	Casing OD	Weight	Thread	Collar	Grade
17-1/2"	0 - 350-500'	13-3/8"	48	8-R	ST&C	H-40
12-1/4"	0 - 4700'	9-5/8"	40	8-R	LT&C	J-55
8-3/4"	0 - 11600'	5-1/2"	17	8-R	LT&C	P-110

Application to Drill

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 350' to 500' of 13 3/8" H-40 48# ST&C casing to a depth of 25' into the Rustler. Cement with 490 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 4700' of 9 5/8" J-55 40# LT&C casing. Cement lead with 1000 Sx. Of Class POZ/C Cement + additives, tail with 200 Sx. Of Class "C" + additives, circulate cement to surface.
5 1/2"	Production	Set 11600' of 5 1/2" P-110 17# LT&C casing. Cement in two stages, first stage cement with 1020 Sx. of Class POZ/C Cement + additives. Second stage cement with 600 Sx of Class "C". Estimated top of cement 2700'.

10 Pressure control Equipment: Exhibit "E". A 13 3/8" 5000 PSI working pressure B.O.P. consisting of one set of blind rams and one set of pipe rams and a 5000 # annular type preventer. A choke manifold and 120 gallon accumulator with floor and remote operating stations and auxiliary power system. Rotating head below 6000'. A kelly cock will be installed and maintained in operable condition and a drill string safety valve in the open position will be available on the rig floor. BOP unit will be hydraulically operated. BOP will be nippled up on the 9 5/8" casing and will be operated at least once a day while drilling and the blind rams will be operated when out of hole during trips. No abnormal pressure or temperature is expected while drilling.

11 Proposed Mud Circulating System:

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 - 500'	8.4 - 8.6	30 - 32	May lose circ.	Fresh water spud mud add paper to control seepage and high viscosity sweeps to clean hole.
500' - 4700'	9.7 - 10.0	28 - 29	May lose circ	Brine water. Add paper as needed to control seepage and add lime to control pH (9-10). Use high viscosity sweeps to clean hole.
4700' - 8300'	8.4 - 9.9	28 - 29	NC	Brine water. Paper for seepage. Lime for PH (9 - 9.5)
8300' - 10000'	8.45 - 8.9	28 - 29	NC	Cut brine. Caustic for pH control.
10000' - 11600'	8.9 - 9.7	29 - 45	NC	XCD Polymer mud system.

Sufficient mud materials will be kept on location at all times in order to combat lost circulation, or unexpected kicks. In order to run DST's, open hole logs, and casing, the viscosity and water loss may have to be adjusted in order to meet these needs. Mud system monitoring equipment with derrick floor indicators and visual/audio alarms shall be installed and operative prior to drilling into the Wolfcamp formation. This equipment will remain in use until production casing is run and cemented.

Application to Drill

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

12 Testing, Logging and Coring Program:

A. Mud logging program: One-man unit from 4700' to TD

B. Electric logging program: CNL / LDT / CAL / GR, DLL / CAL / GR

C. No DSTs or cores are planned at this time.

13 Potential Hazards:

No abnormal pressures or temperatures are expected. The area has a potiential H2S hazard. An H2S drilling plan is attached. Adequate flare lines will be installed off the mud / gas separator where gas may be flared safely. All personnel will be familiar with all aspects of safe operation of equipment being used. Estimated BHP 4000 PSI, estimated BHT 175 .

14 Anticipated Starting Date and Duration of Operations:

Road and location construction will begin after BLM approval of APD. Anticipated spud date as soon as approved. Drilling expected to take 35 - 45 days. If production casing is run an additional 30 days will be required to complete and construct surface facilities.

15 Other Facets of Operations:

After running casing, cased hole gamma ray neutron collar logs will be run from total depth over possible pay intervals. The Morrow pay will be perforated and stimulated. The well will be tested and potentialed as a gas well.

Hydrogen Sulfide Drilling Operations Plan

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

1 All Company and Contract personnel admitted on location must be trained by a qualified H2S safety instructor to the following:

A. Characteristics of H2S
B. Physical effects and hazards
C. Proper use of safety equipment and life support systems.
D. Principle and operation of H2S detectors, warning system and briefing
E. Evacuation procedure, routes and first aid.
F. Proper use of 30 minute pressure demand air pack.

2 H2S Detection and Alarm Systems

A. H2S detectors and audio alarm system to be located at bell nipple, end of flow line (mud pit) and on derrick floor or doghouse.

3 Windsock and/or wind streamers

A. Windsock at mudpit area should be high enough to be visible.
B. Windsock at briefing area should be high enough to be visible.

4 Condition Flags and Signs

A. Warning sign on access road to location.
B. Flags to be displayed on sign at entrance to location. Green flag, normal safe condition. Yellow flag indicates potential pressure and danger. Red flag, danger, H2S present in dangerous concentration. Only emergency personnel admitted to location.

5 Well control equipment

A. See exhibit "E"

6 Communication

A. While working under masks chalkboards will be used for communication.
B. Hand signals will be used where chalk board is inappropriate.
C. Two way radio will be used to communicate off location in case of emergency help is required. In most cases cellular telephones will be available at most drilling foremen's trailers or living quarters.

7 Drillstem Testing not anticipated.

Hydrogen Sulfide Drilling Operations Plan

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

8 Drilling contractor supervisor will be required to be familiar with the effects H2S has on tubular goods and other mechanical equipment.

9 If H2S is encountered, mud system will be altered if necessary to maintain control of formation. A mud gas seperator will be brought into service along with H2S scavengers if necessary.

Surface Use Plan

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

1 Existing Roads: Area maps, Exhibit "B" is a reproduction of Lea Co. General Highway Map. Exhibit "C" is a reproduction of a USGS Topographic Map, showing existing roads and proposed roads. All existing roads will be maintained in a condition equal to or better than current conditions. Any new roads will be constructed to BLM specifications.

A. Exhibit "A" shows the proposed well site as staked.

B. From the intersection of St Hwy #82 and Co Rd #216 (General American Road), go South on General American Road approx 0.9 miles. Turn right and go West approx 1.2 miles. This location is approx 90 feet North.

2 PLANNED ACCESS ROADS: No new roads will be constructed.

3 LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A"

A. Water wells - None known

B. Disposal wells - None known

C. Drilling wells - None known

D. Producing wells - As shown on Exhibit "A"

E. Abandoned wells - As shown on Exhibit "A"

Surface Use Plan

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

4 If, on completion this well is a producer Gruy Petroleum Management Co. will furnish maps and/or plats showing on site facilities or off site facilities if needed. This will be accompanied with a Sundry Notice.

5 LOCATION AND TYPE OF WATER SUPPLY:

Water will be purchased locally from a commercial source and trucked over the access roads or piped in flexible lines laid on top of the ground.

6 SOURCE OF CONSTRUCTION MATERIAL:

If possible construction will be obtained from the excavation of drill site, if additional material is needed it will be purchased from a local source and transported over the access route as shown on Exhibit "C".

7 METHODS OF HANDLING WASTE MATERIAL:

A. Drill cuttings will be disposed of in the reserve pit.

B. All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering. When the job is completed all contents will be removed and disposed of in a approved sanitary land fill.

C. Salts remaining after completion of well will be picked up by supplier including broken sacks.

D. Sewage from living quarters will drain into holding tanks and be cleaned out periodically. A Porta-John will be provided for the rig crews. This equipment will be properly maintained during the drilling operations and removed upon completion of the well.

E. Remaining drilling fluids will be allowed to evaporate in the reserve pit until the pit is dry enough for breaking out. In the event that drilling fluids do not evaporate in a reasonable time they will be hauled off by transports and be disposed of at a state approved disposal facility. Later pits will be broken out to speed drying. Water produced during testing will be put in reserve pits. Any oil or condensate produced will be stored in test tanks until sold and hauled from the site.

8 ANCILLARY FACILITIES:

A. No camps or airstrips to be constructed.

Surface Use Plan

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

9 WELL SITE LAYOUT

A. Exhibit "D" shows location and rig layout.

B. This exhibit indicates proposed location of reserve and trash pits; and living facilities.

C. Mud pits in the active circulating system will be steel pits and the reserve pit is proposed to be unlined, unless subsurface condition encountered during pit construction indicate that lining is needed for lateral containment of fluids.

D. If needed, the reserve pit is to be lined with PVC or polyethylene line. The pit liner will be 12 mils thick. Pit liner will extend a minimum 2'00" over the reserve pits dikes where the liner will be anchored down.

E. The reserve pit will be fenced on three sides with four strands of barbed wire during drilling and completion phases. The fourth side will be fenced after all drilling operations have ceased. If the well is a producer, the reserve pit fence will be torn down. The reserve pit and those areas of the location not essential to production facilities will be reclaimed and seeded per BLM requirements.

10 PLANS FOR RESTORATION OF SURFACE

Rehabilitation of the location and reserve pit will start in a timely manner after all drilling operations cease. The type of reclamation will depend on whether the well is a producer or a dry hole.

However, in either event, the reserve pit will be allowed to dry properly, and fluid removed and disposed of in accordance with Article 7.B as previously noted. The pit area will then be leveled and contoured to conform to the original and surrounding area. Drainage systems, if any, will be reshaped to the original configuration with provisions made to alleviate erosion. These may need to be modified in certain circumstances to prevent inundation of the location's pad and surface facilities. After the area has been shaped and contoured, topsoil from the spoil pile will be placed over the disturbed area to the extent possible. Revegetation procedures will comply with BLM standards.

If the well is a dry hole, the pad and road area will be recountered to match the existing terrain. Topsoil will be spread to the extent possible. Revegetation will comply with BLM standards.

Should the well be a producer, the previously noted procedures will apply to those areas which are not required for production facilities.

Surface Use Plan

Gruy Petroleum Management Co.
Keely 26 Federal No. 1
Unit H Section 26
T17S-R29E Eddy County, NM

11 OTHER INFORMATION:

A. Topography consists of a sloping plane with loose tan sands. Vegetation is mainly yucca, mesquite and shin oak.

B. The wellsite is on surface owned by The United States Department of the Interior, Bureau of Land Management. The land is used mainly for farming, cattle ranching, recreational use, and oil and gas production.

C. An Archaeological survey will be conducted on the location and proposed roads, and this report will be filed with the Bureau of Land Management in the Carlsbad BLM office.

12 OPERATORS REPRESENTATIVE:

Gruy Petroleum Management Company
P.O. Box 140907
Irving, TX 75014
Office Phone: (972) 443-6489
Zeno Farris

13 CERTIFICATION: I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which currently exit; that the statements made in this plan are to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed by Gruy Petroleum Management Company and/or its contractors/subcontractors and is in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provision of U.S.C. 1001 for the filing of a false statement.

NAME: Zeno Farris

DATE: 5/1/2006

TITLE: Manager, Operations Administration

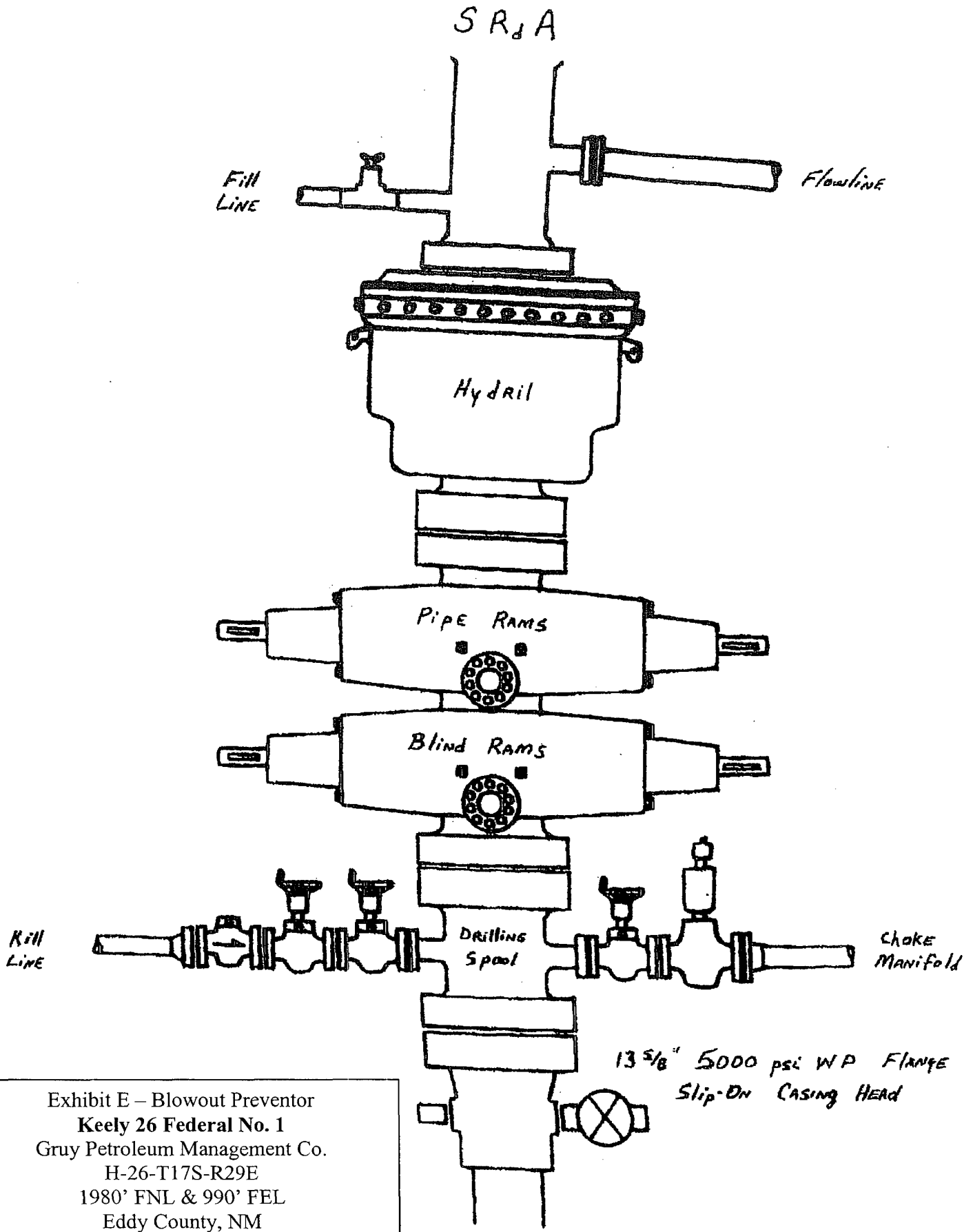


Exhibit E – Blowout Preventor
Keely 26 Federal No. 1
Gruy Petroleum Management Co.
H-26-T17S-R29E
1980' FNL & 990' FEL
Eddy County, NM

DRILLING OPERATIONS
CHOKE MANIFOLD
5M SERVICE

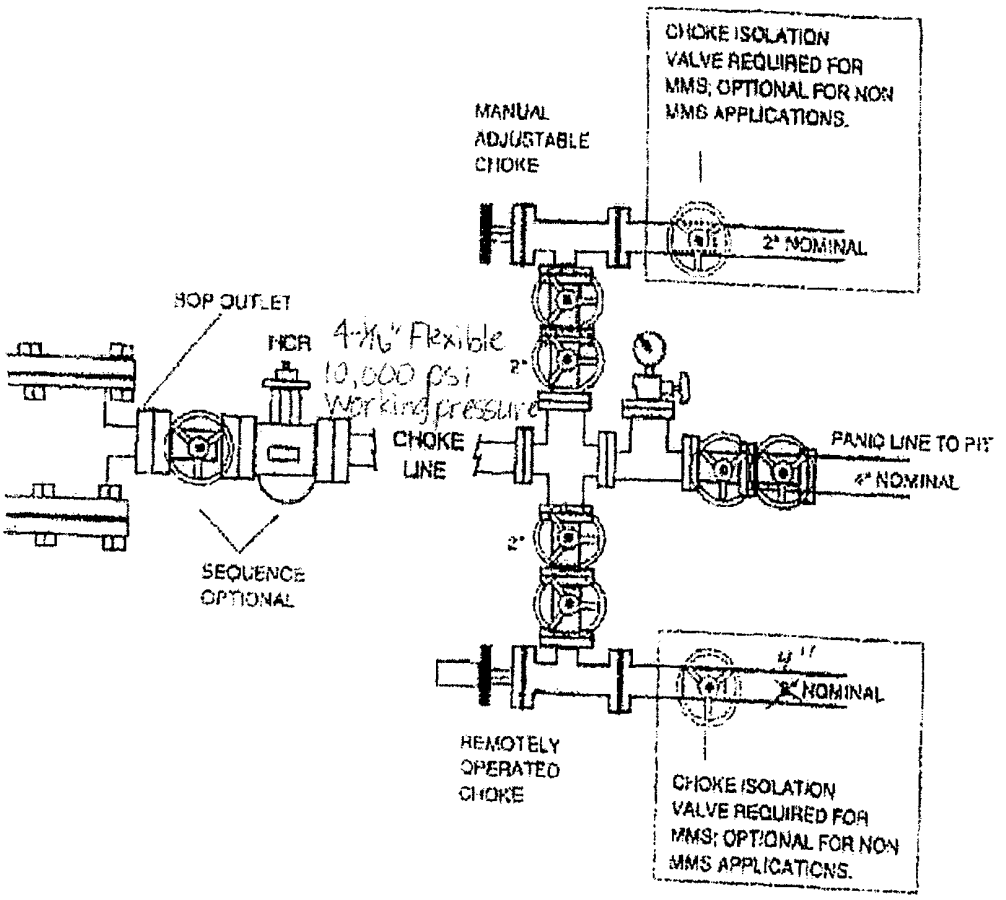


Exhibit E-1 – Choke Manifold Diagram
Keely 26 Federal No. 1
Gruy Petroleum Management Co.
H-26-T17S-R29E
1980' FNL & 990' FEL
Eddy County, NM

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Gruy Petroleum Management Company Well No. 1 - Keely 26 Federal
Location: 1980' FNL & ~~990'~~ 1550' FEL sec. 26, T. 17 S., R. 29 E.
Lease: LC-028784(b) per attached SN dated 6-5-06 SP

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at (505) 234-5972 in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 13-3/8 inch 9-5/8 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. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.

4. A Hydrogen Sulfide Contingency Plan should be activated prior to drilling in the **Seven Rivers** formation. A copy of the plan shall be posted at the drilling site.

II. CASING:

1. 13-3/8 inch surface casing should be set **at approximately 350 feet (25 feet in the Rustler Anhydrite above the top of the Salt)**, below usable water and circulate cement to the surface. If cement does not circulate to the surface, the BLM Carlsbad Field Office shall be notified at (505) 234-5972 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 9-5/8 inch intermediate casing is **sufficient to circulate to surface.**

3. 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.**

III. PRESSURE CONTROL:

1. Before drilling below the 13-3/8 inch surface casing, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve. Before drilling below the 9-5/8 inch intermediate casing, the blowout preventer assembly shall consist of a minimum of One Annular Preventer, Two Ram-Type Preventers, and a Kelly Cock/Stabbing Valve.

2. Before drilling below the 13-3/8 inch surface casing, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi. Before drilling below the 9-5/8 inch intermediate casing, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 5000 psi.

CONDITIONS OF APPROVAL - DRILLING (CONTINUED)

Operator's Name: Gruy Petroleum Management Company **Well No.** 1 – Keely 26 Federal
Location: 1980' FNL & ~~990'~~ 1550' FEL **sec.** 26, **T.** 17 S., **R.** 29 E.
Lease: LC-028784(b) per attached SUA dated 6-5-06 BH

III. PRESSURE CONTROL: (CONTINUED)

3. After setting the 9-5/8 inch intermediate casing string and before drilling into the **Wolfcamp** formation, the BOPE shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

A. The BLM Carlsbad Field Office shall be notified at (505) 234-5972 in sufficient time for a representative to witness the tests.

B. The tests shall be done by an independent service company.

C. The results of the test shall be reported to the BLM Carlsbad Field Office at 620 East Greene Street, Carlsbad, New Mexico 88220-6292.

D. 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.

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

F. A variance to test the BOPE to the reduced pressure of **1000** psi using the rig pumps prior to drilling below the **13-3/8** inch surface casing is approved.

IV. DRILLING MUD:

1. 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:

A. Recording pit level indicator to indicate volume gains and losses.

B. Flow-sensor on the flow-line to warn of abnormal mud returns from the well.